BENEFICIAL CORPORATION

ANNUAL REPORT 1988

75

SEVENTY-FIVE YEARS AND GOOD FOR MORE

About Beneficial

Consumer finance has been the cornerstone of Beneficial's business for 75 years and the basis of the Company's market franchise. Through its various operating subsidiaries with 1,073 offices located throughout the United States and in Canada, the United Kingdom, and West Germany, the Beneficial Finance System meets a broad range of consumer credit needs. In addition, consumer credit insurance related to the receivables is the major thrust of Beneficial's insurance subsidiaries. At the end of 1988 total receivables were nearly $6.6 billion.

Contents

Financial Highlights

Years Ended December 31	1988	1987	1986	% Increase (Decrease) 1988 over 1987	% Increase (Decrease) 1987 over 1986
(in millions, except per share amounts)					
Net Income (Loss)					
Income from Continuing Operations:					
Income before Special Items	**$ 112.9**	$ 106.2	$ 80.1	**6.3%**	32.6%
Special Items (a)	**(7.9)**	32.6	(5.5)	–	–
Total	**105.0**	138.8	74.6	**(24.4)**	86.1
Income (Loss) from Discontinued Operations	–	2.0	(268.2)	–	–
Extraordinary Items:					
Use of Tax Loss Carryforwards	–	41.4	–	–	–
Early Retirement of Debt	–	(9.0)	–	–	–
Cumulative Effect of Accounting Change	–	–	19.4	–	–
Net Income (Loss)	**$ 105.0**	$ 173.2	$ (174.2)	**(39.4)**	–
Earnings (Loss) per Common Share					
Continuing Operations:					
Earnings before Special Items	**$ 4.54**	$ 4.08	$ 2.90	**11.3**	40.7
Special Items (a)	**(.35)**	1.44	(.24)	–	–
Total	**4.19**	5.52	2.66	**(24.1)**	107.5
Discontinued Operations	–	.09	(11.93)	–	–
Extraordinary Items:					
Use of Tax Loss Carryforwards	–	1.81	–	–	–
Early Retirement of Debt	–	(.39)	–	–	–
Cumulative Effect of Accounting Change	–	–	.86	–	–
Earnings (Loss) per Common Share	**$ 4.19**	$ 7.03	$ (8.41)	**(40.4)**	–
Dividends per Common Share	**$ 2.00**	$ 2.00	$ 2.00	–	–
Shareholders' Equity (includes redeemable preferred stock)	**$ 908.3**	$ 876.1	$ 800.3	**3.7**	9.5
Finance Receivables	**$6,598.1**	$6,134.8	$5,461.1	**7.6**	12.3
Allowance for Credit Losses as a Percentage of Finance Receivables	**3.23%**	3.43%	3.58%	**(5.8)**	(4.2)

(a) Special Items, after income taxes, are comprised of "Provision for Data Processing Upgrade" in 1988; "Interest Income from Tax Settlement" in 1987; and "Provision for Restructuring" in 1986.

To Our Shareholders

Nineteen eighty-eight was a year of solid progress for Beneficial Corporation. Having completed the massive restructuring of the Corporation in 1987, we were able to focus completely on our basic business—consumer lending and the sale of related insurance products. Results were excellent, as strong growth in core operating profitability, before a special charge, was achieved, driven by continuing good receivables growth, exceptional credit quality, and close control of expenses. Moreover, with unrelated operations stripped away, the value of our consumer lending franchise is now clearly demonstrable.

Evidence of our progress during the first full year as a restructured company can be seen in several important and tangible ways:

• Earnings per share from continuing operations, before special items, rose 11% to a new record level.

• Fourth quarter income from consumer finance operations represented the eighth straight quarter of year-to-year increased core operating earnings per share, before special items, and was also at a record level.

• Loan receivables rose 8%, even while we maintained strict underwriting discipline. In fact, our excellent credit quality is reflected in a record low loan delinquency rate and a decreased net chargeoff percentage.

• Beneficial's credit ratings were increased by two leading independent agencies—an important endorsement since money is our principal raw material.

Dividend Increase

In recognition of Beneficial's excellent progress and the expectation of continued strong earnings performance, in early February 1989 your Board of Directors approved a 10% increase in the Company's regular quarterly cash dividend rate—the first such increase in ten years. In doing so, the Board affirmed its confidence that the benefits of Beneficial's restructuring are both significant and sustainable.

While Beneficial turned in an outstanding performance in 1988, bottom line results were reduced by the impact of a special item. Earnings from continuing operations *before* special items rose 11% to $4.54 from a restated $4.08 per share in 1987. Fourth quarter operating earnings per share of $1.19 compared favorably to the $1.10 per share recorded in the prior year period, and represented Beneficial's eighth consecutive quarter of year-to-year higher continuing operating results, before special items.

Due to the inclusion of special items in both periods, earnings from continuing operations declined in 1988 to $105.0 million, or $4.19 per share, compared to a restated $138.8 million, or $5.52 per share, in 1987. 1988 results were reduced by an aftertax provision of $7.9 million, or $0.35 per share, due to our decision in the fourth quarter to switch to IBM Corporation from Data General Corporation as hardware supplier for the Bencom III computer network project. The 1988 provision reflects the estimated loss on disposition of Data General equipment already in inventory and the write-off of a modest amount of software not transferable to an IBM environment. 1987 results, in contrast, included a one-time aftertax gain of $32.6 million, or $1.44 per share, related to interest income on a favorable settlement of prior years income taxes.

Exceptional Credit Quality

Importantly, the credit quality of our receivables portfolio continued excellent in 1988, with overall loan delinquency at the lowest point in the Company's history. Moreover, net chargeoffs remained extremely low. As a percentage of average receivables, net chargeoffs declined to 1.05% from 1.08% of the portfolio in 1987. Noteworthy is the fact that despite the quality of our portfolio, we maintained at year end an allowance for credit losses that covered 1988 net chargeoffs more than three times—a significantly more conservative ratio than our finance industry competitors.

These achievements in credit quality do not come by accident—they are the result of a disciplined culture with focused attention to loan underwriting over many years.

While loan growth is key to Beneficial's long-term results, the essential, first question our loan office managers ask themselves both through a rigorous credit scoring system and from their own judgement gained over years of experience is, "Can I collect this loan?" Reflecting this focus on credit quality, our net chargeoff percentage has averaged only 0.96% over the past five years.

In light of our tight underwriting discipline, 1988's loan growth of $463 million, a gain of 8%, is outstanding. The year's gain is particularly noteworthy given our equally firm resolve to hold yields at attractive levels and not meet the price points and "teaser rates" of some of our competitors. Accordingly, in 1988 as in prior years, the average gross yield on our portfolio exceeded 18%. These factors, coupled with the operating leverage inherent in our close control of operating expenses, generated the strong growth in core operating earnings we achieved in 1988.

Credit Rating Upgrades

We are gratified by the recognition of our improved results by two leading independent credit rating agencies: Standard & Poor's Corporation and Duff & Phelps Inc. Both agencies increased their ratings on our commercial paper, bonds, and preferred stock, with S&P making their rating change just recently in January of 1989. The agencies now rate Beneficial Corporation bonds mid-range "A" and accord "A-1" and "Duff-1" ratings, respectively, to our commercial paper. In addition, Moody's Investors Service has recently placed our long-term debt on its "Watch List" for potential upgrade.

The financial markets' significantly improved perception of Beneficial is a tribute to all of our employees, but particularly so to the men and women staffing our 1,073 loan offices. They are the heart of the Company. It is only through their dedication, experience and professionalism that we are able to generate the high-yielding, yet high-quality loans that are our bread and butter. Through their efforts in providing exceptional service to generations of consumers we have built our powerful franchise in the consumer credit marketplace. We thank them for their consistent hard work and dedication on the shareholders' behalf.

Switch to IBM System

Late in 1988 we made the major decision to delay installation of Bencom III, the new generation of the data processing network linking Beneficial's loan offices, in order to convert to an IBM environment. Bencom III is a unique system designed to accommodate Beneficial's needs into the next century and give us maximum efficiency and flexibility. It is imperative that the system provide a state-of-the-art distributed data processing function, and that the vendor be capable of superior maintenance service in support of

Finn M.W. Caspersen
Chairman of the Board and Chief Executive Officer

our efforts. Moreover, the system itself must be able to remain at the cutting edge of future technological changes. Accordingly, we have decided to utilize IBM and its new AS/400 product line for this major project. While the switch to IBM will delay full roll-out of Bencom III for about a year, this delay will not impact our current field operations. Bencom III is a key strategic investment in Beneficial's future success and will significantly expand the capacity of Beneficial's loan offices to generate new business without adding personnel. After people, systems are our life blood.

Good progress has been made in reducing our real estate investment portfolio. During 1988 the Claridge, a luxury condominium in Dallas, Texas was sold for a package

Executive Committee (left to right):
Finn M.W. Caspersen,
Andrew C. Halvorsen,
David J. Farris, *and*
James H. Gilliam, Jr.

of cash and notes totaling $19 million. Favorable results were generated by our decision to bring the Trammel Crow organization onto Harbour Island as the general partner for the development of the rest of the island. During the year, 48 of the Harbour Island condominium units were sold, bringing total sales to 132 and leaving only 68 remaining. Moreover, the Crow organization is close to finalization of plans for several new projects. A reduced operating loss is expected from Harbour Island in 1989.

75th Anniversary

1989 is Beneficial's 75th Anniversary year. Over those years we have built our franchise in the consumer lending market by providing prompt, efficient and caring service to generations of American consumers. Consumer finance operations have been highly profitable virtually year in and year out. Unfortunately, their outstanding performance had been largely masked by the significant problems of our now divested subsidiaries. We are pleased to celebrate our 75th Anniversary year by re-emphasizing our commitment to our extremely profitable core business and doing what we know best, consumer finance.

1989 should be another excellent year for Beneficial. Although some observers forecast a slowing in U. S. economic growth, we foresee no significant deterioration in our outstanding credit quality and expect another year of receivables growth. The financial condition of our target customers, middle-income consumers with incomes between roughly $20,000 to $50,000, continues excellent. Several exciting new product offerings and marketing programs are currently in development.

Our focus, both long term and short term, will continue to be consumer finance. Accordingly, 1989 should be another year of strong financial performance. Within our consumer financial services franchise that we know so well, we are an industry leader. We welcome your investment in Beneficial, and we are committed to maximizing its long-term value through continuing earnings increases.

Finn M.W. Caspersen
Chairman of the Board and
Chief Executive Officer

Nineteen eighty-nine marks Beneficial's 75th year. Looking back, the single most important quality that has enabled the Company to grow and prosper over the years has been its consistent focus on "customer care."

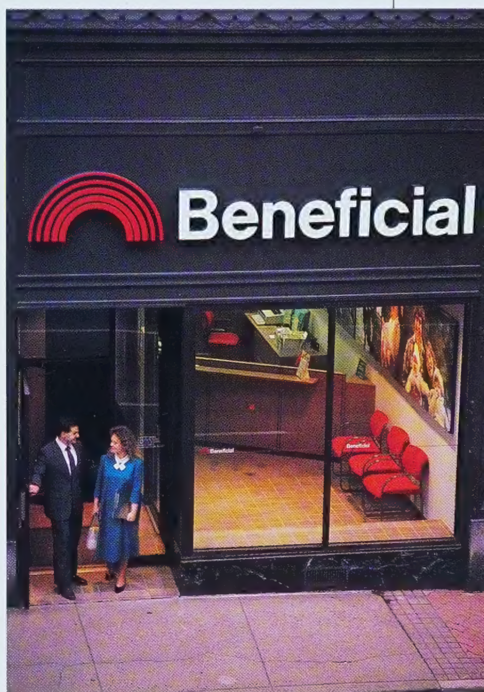
In strong economies and in times of upheaval, Beneficial has been a dependable source of credit, funding the necessities and the dreams of generation after generation.

Beneficial's success stems from its understanding of its customers. There is no better way to begin telling our history than by tracing our commitment to customer care through the words of two long-time Beneficial family members.

Dr. Charles H. Watts II, former President of Bucknell University and Dean of the College at Brown University, has been a Director of Beneficial since 1959 and was a member of the Executive Committee from 1976 to 1987. His father was Chairman of the Board from 1944 to 1955. Dr. Watts relates the following story:

I was not long married and my father had come to visit my wife and me up in Rhode Island. On the way back to the railroad train, as I was taking him home, my father said, "Charlie, stop the car." And I did.

Up on the horizon was a water tower, and hanging there in a boatswain's chair was a man with a paintbrush, painting the water tower. And my father said, "You see that man?" I said, "Yeah, Dad, I see him." He said, "That's a Beneficial customer." And I quickly replied, "What do you



The office above, located in Charleston, West Virginia, is only one of the more than 1,000 modern offices in the Beneficial Finance System located throughout the United States as well as in Canada, the United Kingdom and West Germany.

Clarence Hodson, founder of the Beneficial Loan Society. The Company had grown to more than 200 offices when he died in 1928.

The exterior of the first loan office, opened in 1914 in Elizabeth, New Jersey.

Shown below is the interior of a typical loan office at that time. The office pictured was one belonging to a company which was purchased by Beneficial.

Sales finance programs, marketed to retailers under the name of Bencharge Credit Services, are an important source of new loan customers.

mean that's a Beneficial customer?" And he proceeded to give me chapter and verse about that fellow. He said, "I know that his income is roughly such and such; his needs are so and so; he can be helped in x, y, z ways; he has these values; that's our customer."

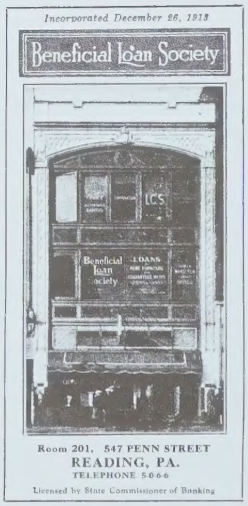
I was absolutely transfixed. As I started the car and drove on to the railway station I realized that I had learned a lot about my father and about the world and about why Beneficial has been a very successful corporation.

Robert Grohol is a Senior Vice President–Operating in our core business. His father was a manager in the Beneficial loan office system for over 45 years. Bob has the following reminiscences of his dad and Beneficial:

My first impressions of Beneficial were during the Depression years. My father had been promoted to manager of the Wilkes-Barre, Pennsylvania, office in the early 30's, and that's where we made our home. As I was growing up, people had very real needs, and in that area you weren't dealing with a lot of affluent folks, so there were very few sources around like Beneficial to accommodate those needs. I remember being very proud of the way my dad and the Company were helping so many people. When people had problems, they picked up the phone and called Mike Grohol, not necessarily because they wanted a loan but frequently for advice and counsel.

I thought Beneficial was a marvelous company, so family-oriented

Charles H. Watts, former Chairman of the Board of Beneficial. He was elected President following the death of Hodson in 1928. He became Beneficial's first Chairman of the Board in 1944, and served in that capacity until his death in 1955.



Incorporated December 26, 1913

Beneficial Loan Society

Room 201, 547 PENN STREET
READING, PA.
TELEPHONE 5-0-6-6

Licensed by State Commissioner of Banking

A typical second floor store-front office in Reading, Pa.

(left) A tabloid advertisement of the '30s promoting borrowing funds to meet personal financial needs.

and so genuinely concerned about its people. It seemed to me like it would be a darned good place to work after I graduated from college.

I've continued to feel very good about Beneficial over the course of my career. Our people adhere to the concept of caring for customers, a concept that has become deeply ingrained in our corporate culture. I think it counts in large measure for the Company's success since its inception.

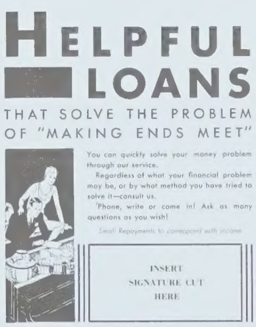
The Company's business extends back to December 24, 1913, when the Beneficial Loan Society was incorporated. The Society opened its first loan office in Elizabeth, New Jersey, in August 1914, shortly after the enactment of a small loan law in that state. By year-end, offices had also been opened in Newark and Jersey City.

There had always been those who were willing to lend money in small amounts at usurious rates, often at rates over 1,000 percent annualized, but their services were used only in dire circumstances. Still, the working man had no other place to go—banks did not make personal loans—so illegal lenders were well-patronized despite their high rates. The enactment of legislation in New Jersey in 1914 over the stubborn opposition of the high-rate lenders made credit lending available to the working man.

Among the many businessmen actively supporting the development of regulated lending was Clarence Hodson, the founder of the Beneficial Loan Society. It was

Direct Mail solicitation is an important marketing tool. With proper targeting, it is an efficient way to generate new borrowers.

O. W. Caspersen, former President and Chairman of the Board of Beneficial. He became President in 1944, succeeding Charles Watts, and Chairman of the Board in June 1956, retiring to the position of Chairman Emeritus in 1962. Mr. Caspersen was initially employed as a secretary to Clarence Hodson in 1920.



A sample ad from the early '40s.

(left) A second floor walkup loan office circa 1948, before the name change to "Beneficial."

Real estate secured loans are extremely attractive for the discerning borrower, making possible both lower interest rates and longer amortization periods.

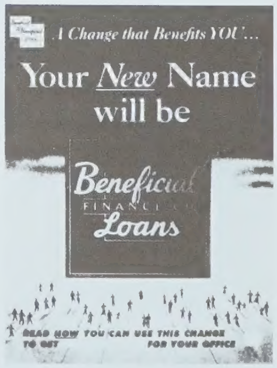
his energy and vision that created the Beneficial Finance System and built it into an organization of over 200 loan offices by the time of his death in 1928.

After Hodson's death, Charles H. Watts and O. W. Caspersen became the principal operating executives of a new company formed in 1929 through the merger of several companies that had been controlled by Hodson, with Watts in full charge of operations and Caspersen handling financial affairs. The two men, and later Roy E. Tucker, were to run the business as the Executive Committee until 1955, when Mr. Watts passed away.

In 1929 the Great Depression began. It has been said that one had to live through that period in order to comprehend the economic havoc and anxieties of the time. Watts, in the annual report for 1933, said, "The importance of credit extension, as it relates to business and more particularly as it relates to the consumer, has been emphasized during the past year more than ever before . . . Since the beginning of 1929, in which year the depression began, the Company's system of personal finance companies has made more than two million loans, totaling more than three hundred millions of dollars. The faith in the character and ability of the average family with respect to their obligations is justified by the records of the Company during these difficult years."

At the end of 1933 the Company had over 2,000 employees, and at the onset of World War II had some

Roy E. Tucker, former President of Beneficial Management Corporation and Vice-Chairman of Beneficial Corporation. Mr. Tucker started in 1922 as a secretary to Clarence Hodson and remained with the Company until his death in 1959.



Personal Finance Co., one of several names under which the Beneficial consumer finance system was operating. In 1954 it was decided to unite the various subsidiaries under a single standard, that of the parent company—Beneficial.

3,100 employees. By the end of the war, more than 1,000 had been called to service, and a substantial number went to work in jobs more closely related to the war effort. Consequently, a number of offices were closed.

Beneficial entered the period of its greatest expansion after the war, with outstanding loans and the number of offices showing increases in each succeeding year. This steady growth was attributable to a greater demand for services throughout the system and to the opening of new offices, generally in territories not previously served.

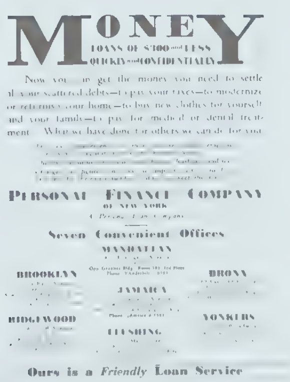
In the late sixties, in what would prove to be a major strategic development, Beneficial's subsidiaries pioneered second mortgage lending in California, a type of loan the banks wouldn't touch at that time. Now they are a staple of life in the credit industry and represent over 60% of the loan portfolio.

The decision to start writing second mortgage loans transformed the Company's loan office operations into a multi-line business. Pierre "Bud" Bashe, Group President of the Northwest Department, comments on the changes:

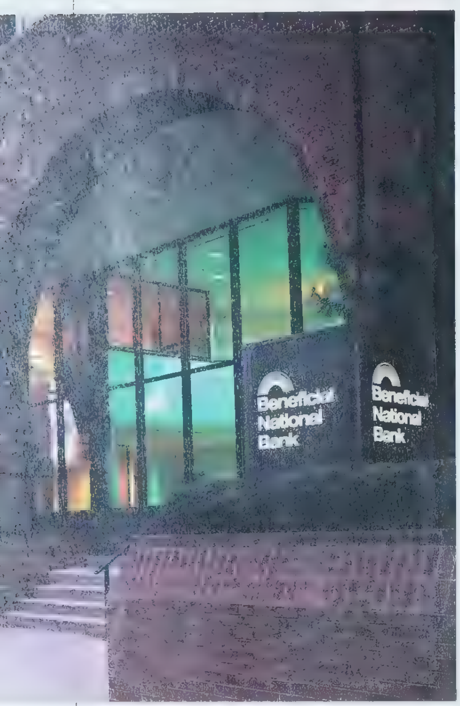
The business was very simple in those days. It was high volume for small amounts, and the average customer was blue collar. He used the money mostly for debt consolidation, but he also borrowed heavily at Christmas. Credit cards weren't generally available at that time. From a simple business with two products—small loans and installment sales contracts—it's

Beneficial satisfies the credit needs of its customers for debt consolidation, home improvement, education, and many more.

Meeting the financial needs of the "Man on Main Street" was responsible for the remarkable growth of a single office into an international network of more than 1000 offices.



Checking the credit history of former customers who were applying for new loans was a manual operation.



Beneficial National Bank is a full-service commercial bank located in Wilmington, Delaware. In addition to meeting the needs of business and consumers in the Wilmington area, this bank acts as Beneficial's primary cash management bank for its domestic corporations.

evolved into a very sophisticated lending operation with 25 or 30 different products. We have secondary marketing operations, mortgage companies, and wholesale and retail loan products. We have seen an evolution in products in all lending areas. Competition is different. Banks as well as S&L's are going after our real estate customers. It used to be just strictly finance company to finance company.

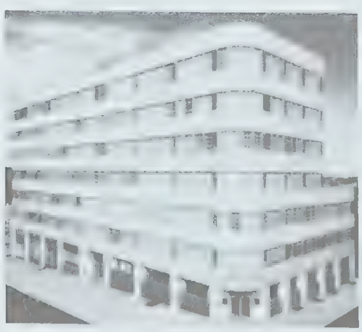
Financial institutions had offered essentially unchanging products for decades. However, inflation impacted both supply and demand and heightened consumer awareness of financial products. In response, new products evolved to meet those demands, in the process tending to blur the traditional boundaries among financial institutions.

Thus, market changes dramatically altered Beneficial's competitive positioning, creating opportunities while exposing vulnerabilities. Liberal federal bankruptcy laws resulted in higher loan losses for all lenders, and inflation pushed up both interest rates and staff and administrative costs of making and servicing a loan. As a result of these high costs, unsecured lending, which is at relatively high rates, stretched the borrowing capabilities of many customers.

For those with uncommitted home equity, the second mortgage offered an economically attractive

Various ads from the '50s, including a Beneficial TV commercial, below.

Former headquarters of Beneficial Corporation located in Wilmington, Delaware. The building, occupied in 1952, was sold in 1981.

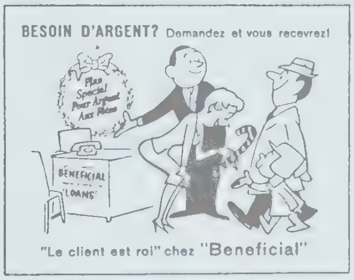


alternative, making possible both lower interest rates and longer amortization periods. Thus, considerable additional borrowing could be supported without an increase in monthly payments.

Changes in product mix had profound implications on staffing and our loan office network, since second mortgages are less labor intensive than unsecured loans. Moreover, it was clear that high returns would come only by managing for credit quality—concentrating on higher income customers in states where the regulatory and economic environments are hospitable.

Our doing so has worked out very well. As we enter 1989—our seventy-fifth year—nearly $6.6 billion of loans are outstanding, serviced in 1,073 offices, quite a change from our 50th anniversary when loan receivables were just $800 million, serviced in nearly 1,600 offices.

Long term, our success will be dependent upon our ability to continue to differentiate our products and services in an increasingly competitive environment. By constant focus on customer care, we are confident that we can meet that challenge. Consumer finance is our franchise—our strength since Beneficial's creation.



A '60s advertisement in French, used in Montreal, Canada.

In 1955 Beneficial Management Corporation moved from Newark, New Jersey to its new "home" in Morristown, New Jersey. The weathervane is an authentic copy of the one on the Old North Church in Boston from which Paul Revere received the signal that started him on his famous ride. The building was sold in 1981.

The famous "Toot Toot" appeared in Beneficial's marketing materials during the '70s and '80s.

Beneficial Center, located in Peapack, New Jersey, provides a professional atmosphere where employees are offered a broad range of exciting career opportunities.

Directors

(sitting, left to right)

James H. Gilliam, Jr.
Senior Vice President, General Counsel and Secretary

David J. Farris
Member of the Office of the President and Chief Operating Officer

Finn M. W. Caspersen
Chairman of the Board of Directors and Chief Executive Officer

Andrew C. Halvorsen
Member of the Office of the President and Chief Financial Officer

(standing, left to right)

Charles H. Watts, II
Educational and business consultant, McLean, Virginia

J. Robert Hillier
Architect and businessman, The Hillier Group, Inc., Princeton, NJ

K. Martin Worthy
Attorney at Law, Hopkins, Sutter, Hamel & Park, Washington, D.C.

Gerald L. Holm
Consultant to the Company; former Vice Chairman of Beneficial Corporation

Robert C. Cannada
Attorney at Law, Butler, Snow, O'Mara, Stevens & Cannada, Jackson, Mississippi

Steven Muller
President, Johns Hopkins University, Baltimore, Maryland

Susan M. Wachter
Associate Professor of Finance, The Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania

Charles W. Bower
Retired; former Senior Vice President and Treasurer of Beneficial Corporation

Robert A. Tucker
Retired; former Member of the Office of the President and Chief Financial Officer of Beneficial Corporation

E. Norman Veasey
Attorney at Law, Richards, Layton & Finger, Wilmington, Delaware

Susan Julia Ross
Attorney at Law, Natelson and Ross, Taos, New Mexico

Kenneth J. Kircher
Secretary to the Board of Directors

Financial Section

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Financial Review

Review of Fourth Quarter Results

Due to the impact of special items, Beneficial Corporation's fourth quarter earnings from continuing operations declined to $21.4 million from the record $36.5 million reported in the fourth quarter of 1987. On a per share basis, earnings declined to $0.84 from $1.48 per share a year earlier. Fourth quarter 1988 results included a $7.9 million aftertax provision related to the decision to switch to IBM Corporation from Data General Corporation as hardware supplier for the Bencom III computer network project. The provision reflects the estimated loss on disposal of Data General equipment already in inventory and the write-off of the modest amount of software not transferable to an IBM environment. Fourth quarter 1987 results included $14.4 million in interest income related to a refund of 1976 and 1977 federal income taxes. On an aftertax basis, this benefit added $8.6 million, or $0.38 per share, to the quarter's earnings. The refund resulted from a favorable decision by the United States Court of Appeals for the Federal Circuit upholding the method the Company used to determine its credit losses for federal income tax purposes. Removing both of the aforementioned items from the quarterly comparisons, fourth quarter 1988 earnings per share increased to $1.19 from the restated $1.10 per share in the fourth quarter of 1987, and represented Beneficial's eighth consecutive quarter of increased core operating earnings per share on a year-to-year basis.

Fourth quarter operating measurements were strong by any measure. Total receivables outstanding increased $264 million, compared to an increase of $314 million in the fourth quarter of 1987. Removing the benefits of foreign exchange translation in both quarters, the 1988 quarterly gain was $230 million, compared to the 1987 quarterly gain of $259 million. Overall loan delinquency improved during the quarter and ended the year at the lowest level in the Company's history, a mark previously reached at the end of 1987. Loan balances more than two months overdue on a recency basis were 0.59%, down from 0.65% at September 30 and 0.61% at the end of 1987. Net chargeoffs for the quarter were $17.7 million, or 0.26% of average receivables, compared to $16.0 million, or 0.25% of average receivables, in the fourth quarter of 1987.

The quarter's strong receivables growth, coupled with the continuing excellent credit quality and a continuation of tight expense control, produced good operating profitability in the fourth quarter. Removing the aforementioned special items from the comparisons, pretax operating income as a percentage of average receivables improved in the quarter to 2.90% from 2.25% in the fourth quarter of 1987 and 2.85% during the first nine months of 1988. Because of a significantly higher tax rate in 1988 (the 1987 fourth quarter benefited from significant utilization of restructuring-related tax credits), the net aftertax return on receivables declined slightly to 1.81% in the fourth quarter of 1988 from 1.87% in 1987.

Beneficial's money and capital market activities in 1988 benefited from the dramatically improved perception of the Company in the financial markets. This perception was confirmed in June when Duff and Phelps Inc., the Chicago-based credit rating service, raised their ratings of the Company's senior debt to "D&P-6" (middle Single A) from "D&P-7" (low Single A) and raised the rating on the Company's preferred stock to "D&P-7" from "D&P-8." In addition, the rating on Beneficial's commercial paper was increased from "Duff 1-" to "Duff 1." Further significant evidence of the improvement in the Company's financial condition came in January of 1989 when Standard and Poor's Corporation upgraded the Company's senior debt to "A" from "A-," preferred stock to "A-" from "BBB+," and commercial paper to "A-1" from "A-2." Finally, late in January of 1989 Moody's Investors Service placed Beneficial's bonds on their "Watch List" to reflect their consideration of a possible upgrade.

Although markets for the Company's commercial paper and term debt securities remained very deep prior to the upgradings, the rating agencies' recognition of Beneficial's significantly improved operating performance should be reflected in both lower borrowing costs and a broader array of debt investors—particularly for the Company's commercial paper.

After an almost two year absence from the capital markets, Beneficial sold its first public issue of long-term debt in January 1988. The $200 million of five-year debentures was oversubscribed and sold at an attractive spread relative to U.S. Treasuries.

In February the Company resumed sales under its medium-term note program through which notes with maturities of nine months to ten years are offered to the public through agents and directly by the Company. This program has proven to be extremely cost effective as investors are able to select specific maturity dates for their purchases and are therefore occasionally willing to accept a somewhat tighter spread. In addition, agent's commissions on the sales are lower than typical underwriting commissions. During the year, spreads over Treasuries of the Company's medium-term note sales continued to tighten. By year end over $579 million in notes had been issued with an average maturity of five years at an average rate of 9.16%. During 1989, through its Beneficial Securities Inc. subsidiary, the Company plans to emphasize the direct sale to investors of medium-term notes.

During 1988 over $360 million of term debt, with an average interest rate of 10.54%, matured or was called for early redemption. Total term debt issued worldwide during the year amounted to $915 million at an average rate and maturity of 9.09% and five years, respectively. Accordingly, the embedded cost of long-term debt for Beneficial improved to 9.80% at year end from 10.06% at December 31, 1987. Also, reflecting the year's significant issuance of term debt, long-term debt increased to 61.5% of the Company's total "Funding Base" from 57.1% at the end of 1987 (see table).

During 1989 the Company has total maturities of term debt of $523 million, including $130 million of which the holder may elect payment prior to maturity, at a weighted average rate of 9.93%. Additionally, the $61 million remaining outstanding of the 14.75% notes of Beneficial Overseas Finance N.V. due May 15, 1992 are subject to call at 101.5 on May 15.

Funding Base

At December 31 (in millions)	1988	% of Total	1987	% of Total
Short-Term Debt				
U.S. Currency	**$1,681**	**27.7%**	$1,757	31.8%
Foreign Currencies	**279**	**4.6**	301	5.5
Total Short-Term Debt	**1,960**	**32.3**	2,058	37.3
Deposits Payable	**377**	**6.2**	307	5.6
Long-Term Debt	**3,725**	**61.5**	3,153	57.1
Funding Base	**$6,062**	**100.0%**	$5,518	100.0%

Money market activities during the year, consisting primarily of the Company's direct issuance commercial paper program, continued to benefit from the improved perception of the Company in the financial markets. Total domestic commercial paper outstanding at December 31 was $1.62 billion, down slightly from $1.68 billion at December 31, 1987. Marketing efforts during the year resulted in the addition of a number of significant new customers, which enabled the Company to diversify its sales over a larger investor base. The success of the commercial paper program during 1988 was extremely gratifying considering the fact that Beneficial was at the time one of the country's very largest direct issuers of commercial paper rated "A2/P2" by Standard & Poor's and Moody's.

The Company maintains coverage of its domestic commercial paper outstandings with committed revolving lines of credit. At year end domestic bank lines of credit totaled $1.89 billion, representing over 116% of the total dollar amount of domestic commercial paper outstanding. Bank lines of credit in Canada, the United Kingdom, and West Germany total $350 million as expressed in U.S. dollars.

(percent)

Reflecting increasing short-term interest rates during the second half of the year, Beneficial's worldwide cost of short-term debt, including the cost of bank lines and revolving credit facilities, was 8.12% in 1988 compared to 7.38% in 1987. In the United States the total cost of short-term debt was 7.98%, up from 7.27% in 1987.

Consumer deposits continue to play a modest but growing role in Beneficial's overall funding, with deposits totaling $377 million at the end of 1988, up from $307 million at December 31, 1987. Deposits are generated by the Company's FDIC-insured Beneficial National Bank and Beneficial Savings Bank FSB, as well as by its consumer banking operations in the United Kingdom and West Germany and from employee thrift accounts.

Beneficial's total worldwide melded average borrowing cost, including bank line and revolving credit commitment fees, was 9.33% in 1988, up modestly from 9.15% in 1987. Beneficial's average quarterly borrowing costs for all debt for 1988 and the prior four years is presented in the table below:

	1988	1987	1986	1985	1984
1st Quarter	**9.07%**	9.00%	10.05%	10.50%	10.49%
2nd Quarter	**9.11**	9.05	9.69	10.40	10.71
3rd Quarter	**9.42**	9.25	9.18	9.99	10.96
4th Quarter	**9.71**	9.35	9.06	9.98	10.75
Full Year	**9.33%**	9.15%	9.48%	10.21%	10.74%

During 1988 Beneficial continued to minimize exposure to interest rate risks by maintaining a very conservative "gap" between its interest-sensitive assets and liabilities. The Company considers both the "gap" between interest-sensitive assets and liabilities, as well as the duration of its assets and liabilities, in managing exposure to interest rate risk. To the extent practical, fixed-rate assets are funded with fixed-rate liabilities and equity while variable-rate assets are funded with commercial paper borrowings, bank debt, deposits and other variable-rate borrowings.

The Company also maintains a very conservative position regarding exposure to foreign currency changes. Foreign subsidiaries continue to be funded in their local currencies. In addition, the Company's net investment positions in its foreign operations are hedged to the largest extent practical. Beneficial's largest exposure at year end, in any foreign currency, amounted to a net long position of 11.5 million Deutsche marks ($6.6 million).

Rates for the Company's commercial paper and medium-term notes, both of which are offered on a direct basis to investors, are quoted daily on the TELERATE SYSTEM.

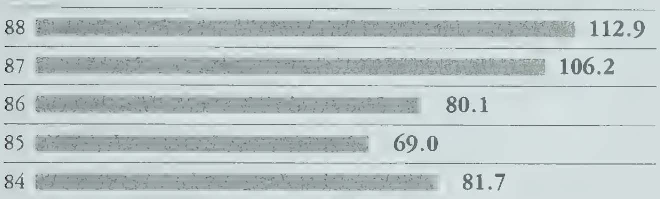
Review of 1988 Earnings

Eliminating the impact of special, one-time items from comparisons, 1988 earnings for Beneficial's continuing operations represent the highest earnings in Beneficial's history. Removing the impact of special items in both years, operating net income increased 6% to $112.9 million from $106.2 million in 1987. Comparable earnings per share increased somewhat faster, by 11% to $4.54 from a restated $4.08 per share in 1987, reflecting a lower preferred dividend requirement and a reduced number of common shares outstanding this year.

1988 earnings from continuing operations were reduced by $7.9 million, or $0.35 per share, due to the decision to switch to IBM Corporation from Data General Corporation as hardware supplier for the Bencom III computer network project. The 1988 provision reflects the estimated loss on disposition of equipment already in inventory and the write-off of the modest amount of software not transferable to an IBM environment. The special item included in 1987 earnings from continuing operations was $54.4 million in interest income related to a refund of

1976 and 1977 federal income taxes. On an aftertax basis, this benefit added $32.6 million, or $1.44 per share, to the year's earnings. Including these items, 1988 earnings from continuing operations was $105.0 million, or $4.19 per share, compared to 1987 earnings of $138.8 million or $5.52 per share.

Income from Continuing Operations*
(in millions)



**Excludes the following Special Items, after income taxes: "Provision for Data Processing Upgrade" of $7.9 in 1988; "Interest Income from Tax Settlement" of $32.6 in 1987; "Provision for Restructuring" of $5.5 in 1986; and "The 'Fresh Start' Provisions of the Deficit Reduction Act" of $8.5 in 1984.*

Overall net income in 1987 included $41.4 million in extraordinary credits from utilization of tax loss carryforwards, $9.0 million of extraordinary losses on repurchase of term debt, and $2.0 million earnings from discontinued operations. Accordingly, on a net income basis, 1988's net income of $105.0 million compared to 1987's record level net income of $173.2 million.

Effective January 1, 1988 Beneficial Corporation adopted SFAS No. 91, a new accounting rule that generally requires that loan origination fees and certain direct loan origination costs be deferred and recognized over the life of the loan as an adjustment to yield. 1987 and prior year results have been restated to reflect adoption of this accounting change. However, the impact on 1987 results was quite modest, resulting in only a $1.4 million, or $0.06 per share, reduction in full year results.

Operating results are analyzed in detail in the following sections.

Profitability Analysis

The table on the following page analyzes profitability dynamics for continuing operations for the past four years, presenting major categories of income and expense as a percentage of the average principal balance of receivables. Data has been restated this year for the full consolidation of Harbour Island and Beneficial National Bank as required by SFAS No. 94. Special one-time items have been segregated from individual categories to provide a consistent comparison of operating profitability.

During 1988 total receivables outstanding grew $463 million, or 8%, to reach almost $6.6 billion at year end. Examining growth by loan category, real estate secured loans grew $300 million to exceed $4 billion at year end, while personal unsecured loans expanded $83 million to $1.89 billion at December 31. Reversing the relatively flat pattern of the last few years, sales finance outstandings also increased by $53 million to reach $509 million at year end. Commercial bank loans, now included as part of total receivables for the first time due to SFAS No. 94, increased an excellent $27 million during the year to $145 million at December 31. Accordingly, average receivables for the year increased 10% to $6,285 million from $5,708 million in 1987.

Included in the above totals were receivables gains of $93 million and $33 million in Canada and the United Kingdom, respectively. West German receivables declined $58 million. Included in these totals were foreign exchange gains of $3 million in 1988 and $95 million in 1987, the latter during that year's environment of a dramatically weaker dollar.

Beneficial's lending spread continued the recent years' pattern of modest decline, decreasing to 9.43% from 9.71% in 1987. However, the lending spread remains at a high level relative to most of our competitors. Finance charges and fees as a percentage of average receivables remained at an excellent 18.10%, only slightly lower than in 1987. Interest expense increased modestly to 8.67% from 8.49% a year earlier, reflecting the higher cost of short-term debt in 1988, particularly in the fourth quarter. Although Beneficial maintains essentially a matched position on interest rate sensitivity, a sharp upturn in short-term interest rates can exert a temporary (within one quarter) squeeze on margins before receivables are re-priced upwards.

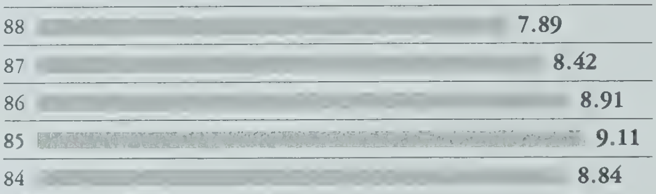
Insurance premium revenue was quite strong in 1988 as credit insurance premiums written through

the Beneficial consumer loan office network increased an excellent 15%. Premium revenue in 1987 and 1988 is distorted by one time inflows and outflows from annuity and life reinsurance contracts, with insurance benefits and commission expense distorted by essentially offsetting amounts. Overall insurance earnings were quite strong, with total pretax income from insurance operations increasing to $46.8 million (0.74% of average receivables) from $35.0 million (0.61% of average receivables) in 1987.

Other revenues were relatively soft in 1988, reflecting reduced revenues in Harbour Island, Inc., Beneficial's real estate subsidiary in Tampa, Florida, and in Beneficial Mortgage Corporation, the Company's mortgage subsidiary. However, losses in both subsidiaries were reduced in 1988, in the case of the mortgage company by a significant amount.

(includes Salaries and Benefits and Other only)

(percent)



Expense control continued strong in 1988. Salaries and employee benefits declined to 3.40% of average receivables from 3.64% in 1987. Other operating expenses, including marketing, occupancy, telephone,

December 31	1988	1987	1986	1985
Average Receivables (a)	**$6,284.5**	$5,707.5	$5,166.6	$4,587.9
% of Average Receivables				
Finance Charges and Fees	**18.10%**	18.20%	18.98%	19.83%
Interest Expense	**8.67**	8.49	8.81	9.59
Lending Spread	**9.43**	9.71	10.17	10.24
Insurance Premiums	**2.96**	1.80	1.75	3.11
Other Revenues	**1.51**	1.70	1.96	1.63
Gross Spread	**13.90**	13.21	13.88	14.98
Salaries & Employee Benefits	**3.40**	3.64	3.75	3.91
Insurance Benefits	**2.00**	.91	1.02	2.14
Provision for Credit Losses	**1.15**	1.22	1.25	1.17
Other Operating Expenses	**4.49**	4.78	5.16	5.20
Total Operating Expenses	**11.04**	10.55	11.18	12.42
Operating Income before Special Items	**2.86**	2.66	2.70	2.56
Special Items (b)	**(.19)**	.95	(.20)	–
Operating Income	**2.67**	3.61	2.50	2.56
Provision for Taxes	**1.00**	1.18	1.06	1.06
Income from Continuing Operations	**1.67**	2.43	1.44	1.50

(a) In millions. Net of unearned finance charges.

(b) Special items are comprised of "Provision for Data Processing Upgrade" in 1988; "Interest Income from Tax Settlement" in 1987; and "Provision for Restructuring" in 1986.

depreciation, and all other operating costs, decreased to 4.49% of average receivables from 4.78% a year earlier. Accordingly, the overall operating expense ratio (the sum of the two aforementioned totals) declined to 7.89% from 8.42% in 1987. Noteworthy is the significant improvement in this ratio over the last several years. In 1985 the operating expense ratio totaled 9.11%.

Reflecting a continuation of Beneficial's characteristically excellent credit quality in 1988, the provision for credit losses as a percentage of average receivables remained at a quite low absolute level and decreased modestly for the year to 1.15% from 1.22% of average receivables in 1987. As previously discussed, overall net chargeoffs were $68.6 million, or 1.05% of average gross receivables, in 1988, compared to $64.9 million, or 1.08%, in 1987. Overall loan delinquency remains at the lowest level in the Company's history.

Pretax operating income as a percentage of average receivables increased to 2.86% from 2.66% in 1987. The effective tax rate was higher in 1988 at 37.5%, compared to 32.7% in 1987, as 1987 results benefited from a tax sharing agreement with a divested property and casualty insurance subsidiary. Net of the higher tax rate and removing the aftertax impact of special items, 1988's net aftertax return on average receivables decreased slightly to 1.80% from 1.86% in 1987. However, as disclosed in the table, 1988's profitability ratios reflect noticeable improvement since 1985.

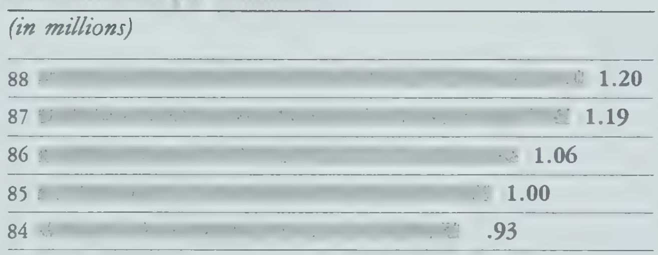
Removing the losses of Harbour Island, and examining profitability of Beneficial's core consumer financial services business taken alone, produces a net aftertax return on average receivables of an excellent 2.03% in 1988.

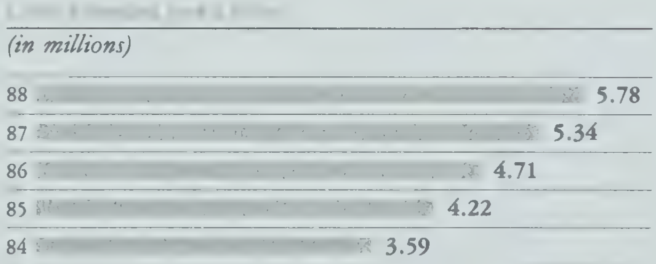
The loan office network totaled 1,073 offices in four countries at year end. In the United States, the network consisted of 901 offices in 39 states, compared to 903 offices in 39 states at the end of 1987. International operations at year-end 1988 consisted of 172 offices in Canada, the United Kingdom and West Germany and represented 14% of Beneficial's receivables portfolio.

Examining geographical concentrations, California is a particularly important state with 28% of total worldwide receivables, while significant concentrations of outstandings also exist in the states of New York (7%), Pennsylvania (6%), and Ohio (6%). Canada is the most significant foreign operation with 8% of worldwide receivables.

As has been true for many years, operating efficiencies at the loan office level continued to improve in 1988. At year end the key measure of cash invested (principal of finance receivables) per employee rose to $1.20 million from $1.19 million at the end of 1987. Similarly, cash invested per office increased to $5.8 million from $5.3 million at December 31, 1987.

A key achievement during 1988 was a gain of over 100,000 customer accounts. The number of accounts had been relatively flat in recent years, but 1988's excellent gain brought total accounts to almost 1.9 million. This is an important operating statistic in the finance industry since, traditionally, consumers will borrow from Beneficial multiple times over their life cycle.





Real Estate Secured Loans

High-quality real estate secured loans continue to be Beneficial's key lending market and largest category of loans outstanding. Total home equity loans outstanding (chiefly second mortgages) increased an excellent 8% in 1988 to exceed $4 billion at year end. Real estate secured loans represent 61% of Beneficial's total receivables outstanding, unchanged from the end of 1987.

Good growth continued in the real estate secured revolving line of credit product where outstandings increased to $1.51 billion at year end, up from $1.44 billion at the end of 1987. These loans, which are chiefly written on a variable-rate basis at a spread over bank prime, provide borrowers with a preapproved line of credit, secured by the equity in their homes, which is accessed by the borrower via a personal checkbook issued by Beneficial National Bank, Beneficial's commercial banking subsidiary. The average spread on the variable-rate portion of this portfolio is approximately prime plus five hundred basis points.

Beneficial's real estate secured loans are subject to carefully monitored underwriting of both the borrower's ability to repay and the independently appraised market value of the property. The loans are well-documented consumer loans based solely on the credit worthiness of the borrower, with the collateral of the real estate providing additional security. Nevertheless, Beneficial will generally lend to a cap of only 75% (including the existing first mortgage) of the appraised value of the home as determined by certified, independent appraisers. In addition, a rigorous discipline of credit approval is enforced as to borrower debt-to-income ratios and overall customer quality.

Most real estate secured loans must also be approved by regional management as well as by the originating office manager. The largest loans must also be approved by a Senior Vice President – Operating. Appraisers are evaluated and policed by regional supervisory management, not by the local loan office manager. Finally, if a loan is delinquent, Beneficial moves quickly to protect its position by initiating foreclosure proceedings. In most instances, such action results in the loan being brought current.

Reflecting these procedures, real estate secured loan net chargeoffs are extremely low. In 1988, including losses on disposition of foreclosed property, real estate loan net chargeoffs averaged only 0.25% of average outstandings. Similarly, delinquency ratios are particularly low, with the lowest delinquency ratios experienced on real estate secured revolving credit accounts.

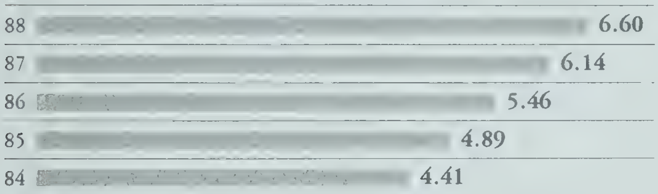
The average real estate secured loan made in 1988 increased to $24,124 from $23,256 in 1987. Reflecting Beneficial's careful underwriting, the average-size loan has increased steadily but at only a moderate rate over the last five years. In 1984 the average size real estate loan was $17,710. Despite intense rate competition from other consumer lenders in this highly attractive market, Beneficial's fixed-rate real estate secured loans originated in 1988 were written at an average yield of 16.05%, compared to 15.29% in 1987 and 15.79% in 1986. Variable-rate real estate secured loans originated in 1988, 1987 and 1986 were written at a spread over prime of 5.32%, 5.79% and 5.93%, respectively. Profitability of real estate secured lending is excellent, reflecting the very low credit losses and maximum operating efficiencies.

Real estate secured lending remains an extremely attractive, high-growth market, particularly for disciplined lenders who exercise careful credit underwriting and do not pursue undisciplined loan growth for growth's sake. With tax deductibility for consumer interest under current tax law generally protected up to a $100,000 loan size, it would appear that real estate secured lending will continue to be the key means by which homeowners access consumer credit when they have a significant need. In short, the product is attractive for both the lender and for the borrower, who also benefits from the lower rates as compared to unsecured lending. An interesting statistic for Beneficial's portfolio is that despite the over $4 billion size of the portfolio, ranking Beneficial among the nation's largest second mortgage loan lenders, the total number of Beneficial customers with homeowner loans is only approximately 174,000. Growth potential continues excellent.

Unsecured Personal Loans

Unsecured personal loans, a key product for Beneficial since its inception, remain an important product line. During 1988 unsecured personal loans outstanding, including both the traditional closed-end, fixed-term loans and the revolving credit line accounts, increased $83 million to $1.89 billion at year end and represent 29% of total receivables outstanding. The average size personal loan made increased modestly to $2,190 from $2,133 in 1987. Although operating costs per dollar loaned and net chargeoffs are higher for personal loan lending than for real estate secured lending, the higher yields realized in personal loan lending continue to make it a significantly profitable product line. In 1988 the average yield on unsecured personal loans written was an excellent 25.08%. Also, strong credit insurance sales add a significant increment to personal loan profitability.

Principal of Finance Receivables
(in billions)



Bencharge—Sales Finance Activities

Sales finance accounts continue to be a particularly important source of new loan customers for Beneficial. In 1988, as in recent years, roughly 50% of new loan borrowers originated as sales finance customers.

Sales finance programs are marketed to retailers by Bencharge Credit Service. Bencharge provides three programs: 1) Private label revolving charge program—a retailer's customer has an open-end line of credit to use in the retailer's store; 2) Closed-end program—a retailer can offer to its customers financing at a fixed term for a single "high-ticket" purchase; and 3) Acquisition of receivables—to increase cash flow, a retailer can sell his entire portfolio of receivables to Bencharge.

In 1988 Bencharge continued an aggressive marketing and advertising campaign to promote all three programs. The campaign included Bencharge's participation in five national/regional trade shows, trade advertising, and continuous direct mail programs to generate new retailer leads.

For the year, Bencharge purchased over 675,000 sales finance contracts, up over 14% from 1987. Dollar volume expanded to $560 million from less than $500 million in 1987, and year-end outstandings increased 12% to $509 million. Of prime importance, the number of sales finance customers increased 11% to 694,000.

Significant data processing enhancements added in 1988 helped to solidify Bencharge's position as a leader in the sales finance business. Such enhancements include electronic transaction reconciliation, an automated program for the acquisition of receivables, and improved statistical reports for national retailers.

In 1989 Bencharge will continue to target its traditional, high-ticket retailers in such areas as appliances, furniture, and home improvement centers. In addition, Bencharge will further develop new markets and program enhancements to ensure steady and profitable growth of the sales finance portfolio and customer base.

Principal of Finance Receivables

at December 31 (in millions)	**1988**	1987	1986	1985	1984
Real Estate Secured Loans	**$4,056**	$3,756	$3,357	$3,026	$2,834
Personal Unsecured Loans	**1,888**	1,805	1,560	1,380	1,221
Sales Finance Contracts	**509**	456	442	417	311
Commercial Bank Loans	**145**	118	102	71	48
Total	**$6,598**	$6,135	$5,461	$4,894	$4,414

Commercial Bank Loan

Beginning with the first quarter of 1988, Beneficial National Bank (BNB), Beneficial's commercial bank subsidiary, has been fully consolidated in Beneficial Corporation's financial statements due to a recent change in accounting rules (SFAS No. 94). BNB has been previously reported as a non-consolidated subsidiary.

The bank's loan portfolio increased significantly in 1988 to $145 million from $118 million at the end of 1987. As indicated in the table on the preceding page, the bank has experienced strong loan growth over the last five years. At year end, the breakdown of the portfolio was 78% commercial and industrial loans and 22% consumer loans. Commercial loans are chiefly real estate secured commercial mortgage loans. As discussed more fully in the BNB section of this report, credit quality continues excellent.

International Operations

As denominated in dollars, finance receivables outside the U. S. increased $68 million in 1988 to reach $955 million at year end, or 14% of the Corporate total. It is important to note that foreign exchange translation in the environment of volatile exchange rates of the U. S. dollar versus many foreign currencies can have a distorting impact on foreign receivable totals. For the year 1988 the net effect was not material, with the year's gain in foreign receivables increasing only $3 million due to translation, although the quarterly changes were erratic. In 1987 foreign exchange translation added $95 million to reported receivables growth. Nevertheless, removing this exogenous factor, foreign operations have generally reported moderate to strong loan growth in their basic operations over each of the last five years. Also, good credit quality has been maintained, particularly so in Canada, which has been excellent.

Operations in Canada represent Beneficial's largest foreign subsidiary, with $517 million in receivables at year end, up from $424 million in receivables at the end of 1987. The Canadian operation consists of 105 offices located throughout the country, although the provinces of Ontario and Quebec represent over 75% of total Canadian outstandings. As in the U. S., marketing efforts focus on high-quality real estate secured loans which now represent 64% of total Canadian outstandings. Canada has generated excellent growth in earnings over the last several years.

The United Kingdom operating subsidiary is Beneficial Bank PLC. During 1988 the subsidiary changed its name to Beneficial Bank PLC from Beneficial Trust & Savings to better reflect its role as a retail banking operation offering consumer loan, sales finance, bank credit card, and deposit services. The bank operates 58 offices throughout the United Kingdom, with operations concentrated, however, in the Greater London, midlands and southeast regions. Receivables outstanding increased to $281 million at December 31, 1988 from $248 million a year earlier. Profits decreased slightly for the year reflecting some squeeze in lending margins and costs of installation of a new computer system.

BFK Bank AG is Beneficial's West German operation. Receivables decreased in 1988 to $157 million at year end from $215 million at the end of 1987 reflecting the anticipated run-off of the portfolio of MKB Bank, which was acquired during 1987. Nevertheless, earnings for BFK increased in 1988. The bank now has nine offices in eight cities.

In order to substantially eliminate foreign exchange exposure for Beneficial Corporation, foreign operations are generally funded in local currencies through domestic financial markets.

Foreign Finance Receivables

at December 31 (in millions)	**1988**	1987	1986	1985
Canada	**$517**	$424	$324	$270
United Kingdom	**281**	248	190	170
West Germany	**157**	215	102	75
Total	**$955**	$887	$616	$515

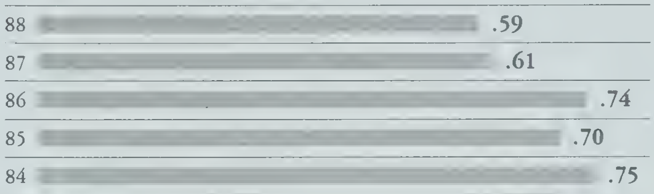
Credit Quality—Condition of the Portfolio

Beneficial Corporation has enjoyed outstanding credit quality over the last several years. Credit quality measures improved further in 1988. The Company ended the year with overall portfolio delinquency at the lowest level in the Company's history. At December 31, 1988, consumer loan balances (comprised of real estate secured and unsecured loans) more than two months delinquent, on a recency basis, improved to 0.59%, compared to 0.65% at September 30, 1988 and 0.61% at the end of 1987.

The net chargeoff ratio also improved in 1988. As a percentage of average receivables, net chargeoffs improved to 1.05%, or $68.6 million, from 1.08%, or $64.9 million, in 1987. As disclosed in the table below, Beneficial's net chargeoff ratio has averaged an excellent 0.96% over the last five years. Also noteworthy is the significant improvement in portfolio delinquency over this period. Despite modest reductions in the credit loss reserve percentage, the year ending reserve of 3.23% of receivables continued to cover full year chargeoffs more than three times, an extremely conservative ratio by industry standards.

Consumer Loan Delinquency

(percent)



Beneficial Mortgage Corporation

Beneficial Mortgage Corporation (BMC), based in Newark, Delaware, originates and services investor-quality residential first mortgage loans. These loans are solicited through Beneficial consumer loan offices in 35 states, four stand-alone branches and a network of correspondents. Loans closed are subsequently sold by BMC into the secondary mortgage market with substantially all servicing rights retained.

Credit Quality Measures

(in millions)	Finance Receivables Charged Off (a)			Allowance for Credit Losses at End of Year		Delinquency
Year	Gross Amount of Receivables Charged Off	Net Chargeoffs	% of Average Gross Finance Receivables	Amount	% of Finance Receivables at End of Year (b)	Consumer Loan Receivables More Than Two Months Delinquent (c)
1988	**$ 84.1**	**$ 68.6**	**1.05%**	**$212.8**	**3.23%**	**0.59%**
1987	80.1	64.9	1.08	210.6	3.43	0.61
1986	73.2	58.6	1.07	195.6	3.58	0.74
1985	57.3	38.3	0.77	190.3	3.89	0.70
1984	58.4	40.0	0.84	173.7	3.94	0.75
1983	87.5	66.9	1.53	186.6	4.47	0.96

(a) Less offsetting recoveries.

(b) After deducting unearned finance charges.

(c) On a recency basis. Includes real estate secured loans and personal unsecured loans. Excludes receivables of BFK Bank AG and Beneficial National Bank.

During 1988 approximately $110 million in first mortgages were originated and passed through to institutional investors, most with Federal National Mortgage Association or Federal Home Loan Mortgage Corporation guarantees. Although BMC recorded another net loss in 1988, operating results were dramatically improved over 1987's significant deficit due to cautious, conservative management of the secondary marketing function, significant overhead expense reductions, and increased automation.

At the end of 1988 the servicing portfolio increased slightly to $884 million, up 3.5% from the previous year-end balance of $854 million.

First mortgage loans offered through the Beneficial loan office network create opportunities to cross-sell to existing second mortgage and unsecured borrowers and, more importantly, create opportunities to establish long-term relationships with new customers.

Beneficial Savings Bank

Beneficial Savings Bank (BSB), Beneficial's consumer bank subsidiary, is a Florida-based, FDIC-insured, federally-chartered savings bank with 11 branches centered in the corridor between Tampa and Orlando. BSB enjoyed good asset growth during 1988 and ended the year with total assets of $102 million, up from $94 million at the end of 1987. Deposit growth was excellent, with total consumer deposits increasing to $68 million from $55 million a year earlier.

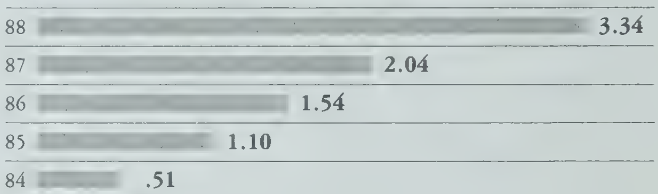
BSB affords Beneficial the opportunity to test the concept of a "consumer bank" as a means of delivering services to consumers as opposed to our traditional loan office distribution channel. While BSB remains at only about breakeven due to its small size, it is a potentially valuable strategic distribution channel and an efficient testing laboratory to determine if the products offered by a bank, combined with the sales culture of our consumer finance network, can better meet our customers' needs.

Beneficial National Bank

Beneficial National Bank (BNB), based in Wilmington, Delaware, is Beneficial's commercial banking subsidiary. BNB provides a full range of commercial and consumer banking services to small- and medium-sized businesses and to consumers in Delaware and surrounding markets. In addition, the bank provides significant corporate cash management and treasury services to Beneficial Corporation and its operating subsidiaries. The bank operates seven full-service branches in Delaware.

BNB reported another excellent year in 1988 as net income increased 64% to $3.3 million from $2.0 million in 1987. Return on average assets was 1.75%, and return on average equity exceeded 19%. Year-end assets increased to $224 million from $178 million in 1987, yet the bank's regulatory capital to assets ratio was a very strong 10.7% at December 31. BNB's overall progress in recent years has been exceptional. Earnings have increased almost ten-fold over 1983 profits of $339,000.

Beneficial National Bank Net Income
(in millions)



At December 31, 1988, total loans outstanding were $145 million, up 23% from the prior year. Approximately 78% of total loans are loans to small- and medium-sized businesses in the local Delaware market. Reserve for loan losses was 1.40% at year end, with net chargeoffs only 0.28% of average loans outstanding during the year. The net chargeoff ratio has averaged only 0.24% over the past five years. Credit quality of the loan portfolio continues to be excellent.

Beneficial National Bank continues to increase its retail banking base and commercial business relationships in the highly competitive Delaware market. In August 1988, BNB acquired three branch facilities and local customer relationships of the First National Bank of Wilmington. The purchase included $37 million of deposits and $4 million of consumer and mortgage loans. At December 31, BNB's total deposits were $200 million, up 24% from the prior year.

Ownership of this full-service commercial bank enables Beneficial to enjoy significant cash management efficiencies. All disbursements through the consumer finance loan office network, as well as all checks written by customers on revolving credit lines sold through the loan office network, are drawn on BNB. Consumer loan office deposits are made at regional banks and are electronically transferred and concentrated at BNB on a daily basis. Additionally, a full range of banking services, including deposit accounts, wire transfer, and check processing, are provided to Beneficial and its subsidiaries. BNB also originates and services the Tax Refund Anticipation Loans issued through H & R Block offices in conjunction with IRS electronic filing of customer tax returns.

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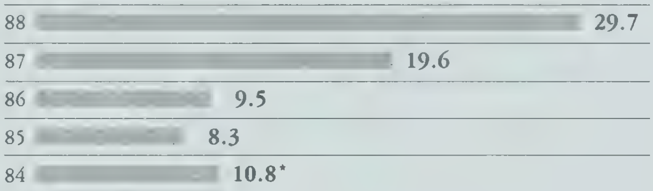
Over the past two years, Beneficial has conducted a pilot program with H&R Block, the dominant factor in tax preparation services for consumers. Through Beneficial National Bank, "refund anticipation loans" are made to consumers entitled to a refund who file their returns with the Internal Revenue Service through Block's electronic filing system. After the return is processed, refund proceeds are directly transmitted from the IRS to an account at Beneficial National Bank with the proceeds applied to repay the outstanding loan. Growth potential for this program in 1989 and beyond appears excellent.

Insurance Operations

1988 was a year of substantial progress for Beneficial's insurance operations. Led by The Central National Life Insurance Company of Omaha (CNL), our flagship credit insurance subsidiary, net insurance earnings increased to $29.7 million from a restated $19.6 million in 1987. Contributing to the strong comparison were excellent profit gains in CNL's subsidiary, American Western National Life (AWNL), which underwrites credit insurance in the state of New York, and in agency operations.

Insurance Operations Net Income
(in millions)



**Excludes one-time benefit of the "fresh start" provisions of the Deficit Reduction Act.*

[illegible]

Central National Life and its subsidiaries rank among the industry leaders in the highly specialized consumer credit insurance marketplace, offering both credit life and disability coverages. These products are marketed primarily through the domestic Beneficial branch office network. Reflecting the marketing economies inherent in selling through the in-house distribution channels, Beneficial-related business accounts for nearly 80% of total insurance earnings.

Credit insurance premiums written through outside, or independent, accounts were lower in 1988, as anticipated, as attention was focused on the most profitable accounts. Marketing efforts are now centered on the consumer loan operations of commercial banks, thrift institutions, finance companies and automobile dealerships in the Northeast. While less profitable than the Beneficial-related business because of commissions paid to the producers, the independent distribution system does make a modest contribution to corporate profitability. In addition, it provides alternative distribution outlets for new insurance product entries.

Total credit premiums written decreased slightly to \$76.5 million in 1988 from \$76.8 million in 1987. This decrease reflects the impact of the refocusing of outside marketing activities, resulting in a significant decline in premiums written through outside accounts to \$14.2 million in 1988 from \$22.8 million in 1987. Premiums written through the Beneficial loan office network increased over 15% to \$62.3 million in 1988 from a restated \$54.0 million in 1987.

In 1988 CNL and its subsidiaries had one of its most successful years ever, producing net income of \$25.9 million, up 28% from 1987 profits of \$20.3 million.

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Beneficial maintains insurance agency relationships with several outside insurance companies which offer credit property and selected non-credit related products. These products are marketed chiefly through the domestic Beneficial finance office network. Since Beneficial acts as the retailer of the product rather than the underwriter, agency operations retain a substantial commission, while the insurance risk of loss rests with the insurance carrier marketing the product. The agency concept will continue to be expanded in the future as a means of generating substantial additional insurance earnings without incurring underwriting risk or significant incremental operating costs.

For 1988, as a result of increased commission income, agency operations reported net income of \$3.8 million, compared to a net loss of \$0.7 million in 1987.

[illegible]

Total investment income continued to be strong in 1988, increasing an excellent 36% to \$27.0 million from \$19.8 million in 1987. Contributing to the increase was continued positive cash flow from operations, generated by increased premium writings and the proceeds from divestiture of two of Beneficial's life subsidiaries during mid-1987.

The investment portfolio is quite conservatively structured, consisting almost entirely of fixed-income obligations, predominantly rated ''A'' or better. Municipal bonds represent the largest portion of the portfolio.

The outlook for Beneficial's insurance operations is excellent. Current product lines and distribution systems present attractive opportunities for the expansion of total life writings. CNL's expertise in the credit insurance market and sound financial condition are demonstrated by the ''A'' rating by A. M. Best and Co. Beneficial's insurance operations will embark in 1989 on the limited expansion of its product lines to include the writing of annuity and other life products in both Beneficial and independent marketplaces.

Real Estate Investments

Harbour Island is a 177-acre island development, located just south of the central business district of Tampa, Florida. Approximately 40 acres of the island have been developed. Currently, an office building, a retail market, a hotel, condominiums, and an athletic club have been finished. Nineteen acres of the undeveloped land is designated for commercial development with the remainder being available for residential construction.

In the fall of 1987, an agreement was signed with Trammell Crow Co., whereby Trammell Crow became the general managing partner for the future development of the island. Additionally, Trammell Crow assumed the management responsibility for the administration of the island and the management of the office building. Further, in the first quarter of 1988, Wyndham Hotels, Inc. (an affiliate of Trammell Crow) entered into a long-term direct financing lease for the hotel and assumed full operational responsibility for that entity. The retail market has been managed by Enterprise Development Co. since the fall of 1986.

The office building and the retail market place are currently generating accounting losses. Carrying costs of island administration and undeveloped land must also be absorbed in Beneficial's income statement. This mixed-use development must be viewed as a long-term investment. The Tampa area continues to be a flourishing community with exceptional opportunities for continued strong growth. With Trammell Crow's development expertise, the prospects for realization of value as the island develops appear positive. In the interim, accounting losses are anticipated to decline over the next several years.

Additionally, subsidiaries of the Company own several hundred acres of real estate surrounding the Peapack, New Jersey office complex. Management is currently considering the possibility of selling or joint venturing development rights to that property. It has not been determined at this time if greater value will be achieved by holding the property for the longer term, or pursuing development soon. The appraised value of this land is substantially in excess of its modest carrying value on the balance sheet.

A subsidiary of Beneficial Corporation also owns Imperial Plaza, a 287-acre industrial park in Houston, Texas. The carrying value of this parcel was written down significantly in 1986, and the appraised value is in excess of its current balance sheet carrying value. During 1988, the Claridge, a luxury condominium project in Dallas, Texas, was sold for a package of cash and notes totaling $19 million. Beneficial's long range strategy is to reduce its real estate holdings when appropriate profit-maximizing opportunities arise.

Balance Sheet

(in millions) December 31	1988	1987
Assets		
Cash and Equivalents	$ 88.9	$ 78.5
Finance Receivables (Note 6)	6,598.1	6,134.8
Allowance for Credit Losses (Note 6)	(212.8)	(210.6)
Net Finance Receivables	6,385.3	5,924.2
Investments (Note 7)	362.4	340.2
Property and Equipment (at cost, less accumulated depreciation of $68.0 and $54.4)	236.7	264.2
Investments in and Advances to Discontinued Operations (Note 3)	33.9	60.0
Other Assets (Note 8)	436.8	374.6
Total	$7,544.0	$7,041.7
Liabilities and Shareholders' Equity		
Short-Term Debt (Note 9)	$1,959.8	$2,058.2
Deposits Payable (includes employee thrift deposits)	377.1	307.0
Long-Term Debt (Note 10)	3,725.3	3,152.8
Total Interest-Bearing Debt	6,062.2	5,518.0
Accounts Payable and Accrued Liabilities (Note 11)	397.4	453.1
Insurance Policy and Claim Reserves	176.1	194.5
Total Liabilities	6,635.7	6,165.6
Redeemable Preferred Stock (Notes 12 and 13)	58.3	75.0
Other Preferred Stock (Note 12)	115.2	115.3
Common Stock (60.0 shares authorized; 22.4 shares issued and outstanding) (Note 12)	22.4	22.4
Additional Capital (Note 12)	59.5	59.8
Net Unrealized Gain (Loss) on Equity Securities (Note 7)	(3.2)	(2.8)
Accumulated Foreign Currency Translation Adjustments (Note 15)	(9.6)	(10.3)
Retained Earnings	665.7	616.7
Total	$7,544.0	$7,041.7

See Notes to Financial Statements.

Statement of Income and Retained Earnings

(Unaudited) Three Months Ended December 31			Years Ended December 31		
1988	1987	(in millions, except per share amounts)	**1988**	1987	1986
		Net Finance Revenue			
$296.5	$271.2	Finance Charges and Fees	**$1,137.3**	$1,038.8	$ 980.7
145.2	123.7	Interest Expense	**544.7**	484.5	455.2
151.3	147.5	Lending Spread	**592.6**	554.3	525.5
		Other Revenue			
104.4	38.4	Insurance Premiums	**186.2**	102.9	90.6
–	14.4	Interest Income from Tax Settlement (Note 2)	**–**	54.4	–
28.3	20.9	Other	**94.5**	96.9	101.1
284.0	221.2	Total	**873.3**	808.5	717.2
		Operating Expenses			
53.0	51.2	Salaries and Employee Benefits	**213.9**	207.9	193.9
77.1	23.3	Insurance Benefits	**125.7**	51.8	52.4
21.1	19.9	Provision for Credit Losses	**72.0**	69.5	64.8
98.0	78.8	Other (Note 16)	**293.8**	273.1	277.1
249.2	173.2	Total	**705.4**	602.3	588.2
34.8	48.0	Income from Continuing Operations before Income Taxes	**167.9**	206.2	129.0
13.4	11.5	Provision for Income Taxes (Note 18)	**62.9**	67.4	54.4
21.4	36.5	Income from Continuing Operations before Extraordinary Items and Cumulative Effect of Accounting Change	**105.0**	138.8	74.6
–	–	**Income (Loss) from Discontinued Operations, after Income Taxes (Note 3)**	**–**	2.0	(268.2)
21.4	36.5	Income (Loss) before Extraordinary Items and Cumulative Effect of Accounting Change	**105.0**	140.8	(193.6)
–	(1.7)	Extraordinary Items (Note 4)	**–**	32.4	–
–	–	Cumulative Effect of Accounting Change (Note 5)	**–**	–	19.4
21.4	34.8	Net Income (Loss)	**105.0**	173.2	(174.2)
657.4	595.7	Retained Earnings, Beginning of Period	**616.7**	502.2	736.5
(13.1)	(13.8)	Dividends Paid	**(56.0)**	(58.7)	(60.1)
$665.7	$616.7	Retained Earnings, End of Period	**$ 665.7**	$ 616.7	$ 502.2
		Earnings (Loss) per Common Share			
$ .84	$ 1.48	Continuing Operations	**$ 4.19**	$ 5.52	$ 2.66
–	–	Discontinued Operations	**–**	.09	(11.93)
–	(.07)	Extraordinary Items	**–**	1.42	–
–	–	Cumulative Effect of Accounting Change	**–**	–	.86
$ .84	$ 1.41	Earnings (Loss) per Common Share	**$ 4.19**	$ 7.03	$ (8.41)
$ 18.7	$ 31.7	**Earnings (Loss) Available for Common Shares**	**$ 93.2**	$ 159.8	$(189.2)
$ .50	$ .50	**Dividends per Common Share**	**$ 2.00**	$ 2.00	$ 2.00
22.2	22.7	**Average Common Shares Outstanding**	**22.2**	22.7	22.5

See Notes to Financial Statements.

Statement of Cash Flows

(Unaudited) Three Months Ended December 31			Years Ended December 31		
1988	1987	(in millions)	1988	1987	1986
		Cash Flows From Operating Activities:			
$ 21.4	$ 36.5	Income from Continuing Operations	$ 105.0	$ 138.8	$ 74.6
		Reconcilation of Income From Continuing Operations to Net Cash Provided by Operating Activities:			
(1.6)	2.4	Increase (Decrease) in Insurance Reserves	(18.4)	15.6	(25.3)
21.1	19.9	Provision for Credit Losses	72.0	69.5	64.8
(9.7)	(12.4)	Provision (Benefit) for Deferred Income Taxes	(21.9)	(21.9)	10.2
11.8	10.7	Depreciation and Amortization	43.6	39.5	38.4
48.1	17.9	Accounts Payable and Accrued Liabilities	27.5	39.2	11.2
91.1	75.0	Net Cash Provided by Operating Activities	207.8	280.7	173.9
		Cash Flows From Investing Activities:			
(938.7)	(866.8)	Loans Originated	(3,176.3)	(3,056.7)	(2,742.8)
(197.0)	(76.5)	Loans Purchased	(323.7)	(204.1)	(251.3)
888.1	667.8	Loans Repaid or Sold	2,971.2	2,621.6	2,430.4
4.3	43.2	Other Receivables	6.4	50.9	(111.0)
(356.3)	(720.1)	Securities Purchased	(1,390.5)	(1,823.1)	(433.0)
376.3	740.6	Securities Sold or Matured	1,367.9	1,777.5	432.7
2.6	(19.1)	Investments in and Advances to Discontinued Operations	(78.7)	(50.3)	121.4
–	53.6	Net Proceeds from Sales of Discontinued Operations	15.7	1,171.1	–
.8	(8.3)	Property and Equipment Purchased	(24.2)	(7.4)	(68.7)
(69.5)	(21.9)	Other	(13.8)	(62.6)	84.1
(289.4)	(207.5)	Net Cash Provided (Used) in Investing Activities	(646.0)	416.9	(538.2)
		Cash Flows From Financing Activities:			
58.0	311.5	Short-Term Debt	(98.4)	(44.8)	857.7
19.5	11.7	Deposits Payable	70.1	41.8	(74.7)
260.0	2.4	Long-Term Debt Issued	911.1	74.5	322.5
(84.1)	(145.3)	Long-Term Debt Repaid	(360.2)	(720.3)	(588.5)
–	(21.3)	Repurchase of Company Common Stock	(.7)	(21.3)	–
(16.7)	(16.7)	Redemption of Redeemable Preferred Stock	(16.7)	(16.7)	(16.7)
(13.1)	(13.8)	Dividends Paid	(56.0)	(58.7)	(60.1)
223.6	128.5	Net Cash Provided (Used) by Financing Activities	449.2	(745.5)	440.2
1.0	2.3	Effect of Exchange Rate Changes on Cash	(0.6)	3.6	0.3
26.3	(1.7)	Net Increase (Decrease) in Cash and Equivalents	10.4	(44.3)	76.2
62.6	80.2	Cash and Equivalents at Beginning of Period	78.5	122.8	46.6
$ 88.9	$ 78.5	Cash and Equivalents at End of Period	$ 88.9	$ 78.5	$ 122.8
		Supplemental Disclosures of Cash Flow Information:			
		Cash Paid During the Year for:			
$ 159.9	$ 145.6	Interest	$ 537.7	$ 494.6	$ 464.1
4.4	8.3	Income Taxes	30.4	39.9	21.9

See Notes to Financial Statements.

Management's Discussion and Analysis

Financial Condition

Beneficial's leverage (the ratio of funded debt to total equity, including redeemable preferred stock) increased to 6.67 times at the end of 1988 from 6.30 times at the end of 1987. The higher leverage reflects the financing necessary to fund continued strong growth in the receivables portfolio.

Finance receivables grew $463 million, or 8%, during the year to almost $6.6 billion at December 31, 1988. The strongest growth occurred in real estate secured loans, with a $300 million increase over 1987. Personal unsecured loans, sales finance contracts and commercial bank loans grew $83 million, $53 million, and $27 million, respectively. At December 31, 1988, the finance receivable mix was 61% real estate, 29% personal unsecured, 8% sales finance contracts and 2% commercial bank loans.

Consumer finance loan balances more than two months delinquent on a recency basis were .59% compared to .61% at the end of 1987. Net chargeoffs as a percentage of average receivables also improved, with 1988 net chargeoffs at 1.05%, compared to 1.08% in 1987. The allowance for credit losses as a percentage of finance receivables was 3.23% at December 31, 1988, as compared to 3.43% at year-end 1987. The Company's reserve levels at year-end 1988 covered the full year's net chargeoffs more than three times.

Total interest-bearing debt increased $544 million during the year and was used primarily to fund the aforementioned receivables growth. In addition, $83 million was used to pay off a liability related to a condominium project in Texas. The investment in this project, which was included in discontinued operations at a written-down value, was sold in 1988 at approximately carrying value.

During 1988 a real estate development subsidiary entered into a long-term direct financing lease for a hotel it owned. As a result of this transaction, the hotel was removed from property and equipment and recorded as a lease receivable in accordance with Statement of Financial Accounting Standards No. 13.

Results of Operations

The dollar amount of the lending spread has increased due to higher levels of receivables. However, as a percentage of average receivables, the lending spread continued to decline, decreasing to 9.43% from 9.71% in 1987 and 10.17% in 1986. The decline in 1988 resulted, in large part, from higher interest rates on borrowings, while in 1987 the primary factor was pressure on pricing.

Finance charges and fees as a percentage of average receivables declined to 18.10% from 18.20% in 1987 and 18.98% in 1986. The drop in yield from 1986 reflects primarily the runoff of loans written at higher rates as well as some competitive pressures on pricing. Beneficial's fixed-rate real estate secured loans originated in 1988 were written at an average yield of 16.05%, compared to 15.29% in 1987 and 15.79% in 1986, while variable-rate real estate secured loans were written at a spread over prime of 5.32%, 5.79% and 5.93% in 1988, 1987 and 1986, respectively. Variable-rate products are generally funded with lower-cost short-term debt. In 1988 the average yield on unsecured personal loans written was 25.08%, compared to 24.95% and 25.14% in 1987 and 1986, respectively.

Interest expense as a percentage of average receivables increased to 8.67% from 8.49% in 1987, but was lower than the 8.81% in 1986. Beneficial's total worldwide melded average borrowing cost, including bank line and revolving credit commitment fees, was 9.33% in 1988, compared to 9.15% and 9.48% in 1987 and 1986, respectively. In absolute terms, interest expense has increased steadily reflecting higher borrowing levels necessary to support receivables growth and, in 1988, higher interest rates on borrowings. However, interest expense in 1988, and to a lesser extent in 1987, benefited from cash inflows from sales of subsidiaries completed in 1987, which was largely used to pay down debt.

Insurance premium revenue comparisons in 1988 and 1987 are distorted by one-time inflows and outflows from annuity and life reinsurance contracts, with insurance benefits and commission expense distorted by essentially offsetting amounts. Excluding these items, premium revenue was flat with last year as sharply curtailed outside, or independent, marketing activities offset a 15% increase in consumer credit insurance written through the Beneficial consumer loan office network. The outside business, while profitable, is less profitable than the Beneficial-related business because of commissions paid to the producers; therefore, attention has been focused on the more profitable accounts.

The effective tax rates on income before taxes were 37.5%, 32.7%, and 42.2% in 1988, 1987, and 1986, respectively. The statutory rates were 34%, 40%, and 46% in 1988, 1987, and 1986, respectively. The 1988 effective tax rate was higher than the federal statutory rate of 34% primarily because of state and local income taxes and an incremental U.S. tax related to foreign source income. The 1987 effective rate was lower than the U.S. statutory rate of 40% principally because of tax benefits received from a tax-sharing agreement with a divested property and casualty insurance subsidiary. The 1986 effective rate was lower than the U.S. statutory rate of 46% largely because of tax exempt investment income.

1988 earnings from continuing operations were $105.0 million, or $4.19 per share, compared to 1987 earnings of $138.8 million, or $5.52 per share, and 1986 earnings of $74.6 million, or $2.66 per share. During the fourth quarter of 1988, the Company made the decision to switch its hardware supplier for the Bencom III computer network project. As a result of this decision, the Company recorded a $12.0 million provision ($7.9 million aftertax). This provision reflects the estimated loss on disposition of equipment and the write-off of software not transferable to the new environment. In contrast, 1987 results included a one-time pretax gain of $54.4 million ($32.6 million aftertax) related to interest income on a favorable settlement of prior years income taxes. 1986 earnings included a $10.2 million ($5.5 million aftertax) provision for restructuring. On a per share basis these items reduced 1988 earnings per share by $0.35, increased 1987 earnings per share by $1.44 and decreased 1986 earnings per share by $0.24.

Excluding the impact of these one-time items, income from continuing operations increased to $112.9 million from $106.2 million in 1987 and $80.1 million in 1986. Fluctuations in the effective tax rates, as previously discussed, reduced 1988 earnings in comparison with 1987, but increased 1987 earnings in relation to 1986. Pretax income (excluding the one-time items) was $179.9 million in 1988, $151.8 million in 1987 and $139.2 million in 1986. The improvement in 1988 over 1987, and 1987 over 1986, is largely attributable to a higher gross margin resulting from a higher level of receivables. In 1987 declining interest rates helped to keep borrowing costs lower. The 1987 comparison to 1986 also benefited for part of the year (the full benefit was realized in 1988) from a reduction in interest expense related to the aforementioned sales of divested subsidaries.

Overall net income in 1988 was $105.0 million, compared to net income of $173.2 million in 1987 and a net loss of $174.2 million in 1986. Net income in 1987 included $41.4 million in extraordinary credits from utilization of tax loss carryforwards, $9.0 million of extraordinary losses on repurchase of term debt, and $2.0 million earnings from discontinued operations. The Company's 1986 net loss reflected net operating losses of discontinued operations ($136.4 million) and net losses on the disposal of discontinued operations ($131.8 million), mitigated partially by the benefit from an accounting change ($19.4 million).

In 1988 the Company's principal sources of cash were collections of finance receivables, proceeds from the issuance of long-term debt, and cash provided from operations. The Company derives a constant source of liquidity and cash flows from maturities and repayments of its receivables. The monthly collections of cash principal as a percentage of average balances were 3.70% in 1988, a slight increase from 3.68% in 1987.

Substantial additional liquidity is available through a variety of committed bank credit lines which the Company maintains in support of its commercial paper borrowings. At year-end 1988, total lines of credit were $2,246 million, with $1,889 million in the form of committed multi-year revolving credit facilities. The unused portion of all lines of credit was $1,934 million at December 31, 1988.

Long-term debt increased to 61.5% of the Company's total "Funding Base" from 57.1% at the end of 1987. Debt issued during the year amounted to $915 million, with an average rate and maturity of 9.09% and five years, respectively. $360 million of long-term debt, with an average rate of 10.54%, either matured or was called for early redemption in 1988.

The Company's principal uses of cash are loans to customers, repayments of maturing debt, and dividends to shareholders.

In June 1988 Duff and Phelps Inc. raised its ratings of the Company's senior debt to "D&P-6" (middle Single A) from "D&P-7" (low Single A) and raised the rating on the Company's preferred stock to "D&P-7" from "D&P-8." In addition, the rating on Beneficial's commercial paper was increased from "Duff 1-" to "Duff 1." In January 1989, Standard and Poor's Corporation upgraded the Company's senior debt to "A" from "A-," preferred stock to "A-" from "BBB+," and commercial paper to "A-1" from "A-2." Also, in January 1989, Moody's Investors Service placed its Baa2 Senior debt ratings of Beneficial under review for possible upgrading.

Notes to Financial Statements

(in millions, except per share amounts)

1. Summary of Significant Accounting Principles and Practices

a) Basis of Consolidation. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform with the 1988 presentation.

b) Finance Operations. The financial statements are prepared on the accrual basis. Finance charges and unearned discount are recognized as income using the interest method or methods which produce similar results. Income accrual is suspended after 30 days on delinquent loans.

Accounts known to be uncollectible are charged off. Real estate secured receivables are reviewed individually by management, and a determination is made as to their collectibility. In general, other receivables are automatically charged off after no payment has been made for six months. For all types of loans, collection efforts are generally continued.

c) Insurance Operations. The Company's insurance subsidiaries are engaged in writing credit life and credit accident and health insurance. Premiums on credit life insurance are taken into income using the sum-of-the-digits method when the insured amounts decrease with collections, or using the straight-line method over the lives of the policies in the case of level-term contracts. Premiums on credit accident and health are generally taken into income using an average of the sum-of-the-digits and the straight-line methods. Policy reserves for credit life and credit accident and health are equal to related unearned premiums. Credit accident and health reserves are adjusted to reflect claim experience.

d) Valuation of Investments. Debt securities are carried at amortized cost; equity securities are generally carried at market value; other investments are carried at cost. The adjustment of the carrying amount of marketable equity securities from cost to market value is recorded directly in shareholders' equity through a valuation allowance.

e) Amortization of Excess Cost of Net Assets Acquired. Excess cost applicable to acquisitions is generally being amortized over 40 years.

f) Earnings per Common Share. Earnings per common share are computed by deducting dividend requirements on preferred stocks from net income and dividing the remainder by average shares outstanding and their equivalents. None of the preferred stocks are common stock equivalents.

g) Cash Equivalents. The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

2. Interest Income from Tax Settlement

During the second quarter of 1987, the Federal Circuit Court of Appeals reversed a prior ruling by a lower court and endorsed the formula used by the Company to determine its reserve for uncollectible accounts on tax returns filed for 1976 and 1977. As a result of this favorable judgment, the Internal Revenue Service paid the Company $83.0 representing a refund for overpayment of taxes in those years and interest to the date of repayment. The interest portion ($54.4) was included in income for the year ended December 31, 1987. The tax refund portion ($28.6) related only to the timing of tax payments and did not affect recorded tax expense.

3. Discontinued Operations

In December 1986 the Company adopted a plan for a comprehensive restructuring of the Company, which resulted in the Company concentrating principally on its core consumer finance business and selling non-core subsidiaries. During 1987 the Company completed the sales of its property and casualty and international insurance subsidiaries, its credit card operation, an annuity company, a credit insurance subsidiary, and most of the receivables of a subsidiary making loans to small businesses. The net loss on disposal and the net loss from operations through November 30, 1986 of these operations are included in Income (Loss) from Discontinued Operations in the 1986 statement of income.

In addition the Company sold substantially all of its leveraged leasing portfolio in 1987. Accordingly, the Company's leasing subsidiary has been included in discontinued operations, and its net income from operations through June 30, 1987 is included in Income (Loss) from Discontinued Operations in the statement of income.

Results of all discontinued operations are summarized in the statement of income as "Income (Loss) from Discontinued Operations, after Income Taxes." Revenues for these discontinued operations were $4.0 and $967.0 in 1987 and 1986, respectively. Such after-tax results of operations were $2.0 of income (including a tax benefit of $.2) in 1987 and a $136.4 loss (after a tax benefit of $95.7) in 1986. The net loss on dispositions was $131.8 in 1986. On a combined basis, considering both the 1986 and 1987 disposals, there was no gain or loss on disposal reflected in 1987.

The investments in and advances to discontinued operations are set forth on the balance sheet at estimated net realizable value.

Extraordinary Items

In 1987 the Company's financial statements reflect the use of $105.0 of net operating loss carryforwards, resulting in an extraordinary tax credit of $41.4.

Also, in 1987, the Company used a portion of the cash proceeds from the sales of its discontinued subsidiaries to retire long-term debt prior to scheduled maturities. A total of $240.7 of long-term debt was extinguished at a premium of $9.0 (net of an income tax benefit of $6.0). This after-tax premium is classified as an extraordinary loss in the income statement.

Changes in Accounting Principle

Effective January 1, 1988, the Company changed its method of accounting for non-refundable fees and costs associated with originating loans by adopting Statement of Financial Accounting Standard (SFAS) No. 91. The Statement generally requires that the net amount of loan origination fees and certain direct loan origination costs be deferred and amortized over the life of the loan using the interest method. Financial statements prior to 1988 have been restated, resulting in a decrease in retained earnings as of January 1, 1986 of $5.2 (after income taxes of $4.5). The accounting change decreased previously reported net income by $2.6 ($.12 per share) in 1986 and $1.4 ($.06 per share) in 1987. The effect in 1988 was $1.0 ($.04 per share).

Also, in 1988, the Company adopted SFAS No. 94 and SFAS No. 95. SFAS No. 94 requires the consolidation of all majority-owned subsidiaries, and, accordingly, the Company has consolidated its real estate development subsidiaries and its commercial bank. The inclusion of these subsidiaries has not had a significant effect on the Company's financial statements. In accordance with SFAS No. 95, a statement of cash flows has replaced a statement of changes in financial position. The prior years have been restated to reflect such changes.

In 1986 the Company adopted the accrual basis for recording consumer finance revenue to conform to practice prevalent in the financial services industry. Previously, finance charges on discounted loans were generally taken into income as earned and collected under the sum-of-the-digits method, and interest from interest-bearing direct cash loans was taken into income as collected. The cumulative effect of the change in accounting principle was $19.4 (after income taxes of $16.5). Had the change been made prior to 1986, it would not have had a material effect on the results of any of the periods presented.

The Financial Accounting Standards Board (FASB) issued a statement (SFAS No. 96) on accounting for income taxes in December 1987. Subsequently, in October 1988, the FASB issued a statement which deferred the effective date of SFAS No. 96 to fiscal years beginning after December 15, 1989. The Company is still assessing the impact of this statement on its financial statements and has not yet decided whether to adopt in 1989 or 1990. When adopted, the most significant impact of the statement on the Company's financial statements is expected to be the provisions relating to recognition of deferred tax benefits. Because the Company has recorded deferred tax benefits when statutory income tax rates were higher than they are currently, the Company expects to reverse a portion of the deferred tax benefits it had previously recorded.

Finance Receivables and Allowance for Credit Losses

Finance receivables, net of unearned finance charges of $320.8 and $348.7 at December 31, 1988 and 1987, respectively, and maximum term in months from origination are as follows:

	Amount		Maximum Term	
December 31	**1988**	1987	**1988**	1987
Real Estate Secured Loans	**$4,055.8**	$3,756.2	**180**	180
Personal Unsecured Loans	**1,888.6**	1,804.7	**120**	120
Sales Finance Contracts	**509.0**	456.0	**60**	60
Commercial Bank Loans	**144.7**	117.9	**360**	360
Total	**$6,598.1**	$6,134.8		

Scheduled contractual payments of finance receivables to be received after December 31, 1988 are as follows:

	1989	1990	1991	1992	Beyond
Real Estate Secured Loans	19%	13%	12%	13%	43%
Personal Unsecured Loans	45	29	15	4	7
Sales Finance Contracts	77	15	5	1	2
Commercial Bank Loans	28	18	13	14	27
Overall	32	18	13	9	28

The above tabulation of scheduled contractual payments is not a forecast of collections. Collections of principal of finance receivables amounted to $2,727.2 for 1988 and $2,457.2 for 1987. The percentage of monthly cash principal collections to average balances was 3.70% for 1988 and 3.68% for 1987.

An analysis of the allowance for credit losses follows:

	1988	1987	1986
Balance at January 1	**$210.6**	$195.6	$190.3
Provision for Credit Losses	**72.0**	69.5	64.8
Other (principally foreign exchange fluctuations)	**(1.2)**	10.4	(.9)
Accounts Charged Off	**(84.1)**	(80.1)	(73.2)
Recoveries on Accounts Charged Off	**15.5**	15.2	14.6
Net Charge Offs	**(68.6)**	(64.9)	(58.6)
Balance at December 31	**$212.8**	$210.6	$195.6

Investments

Investments, principally long-term investments of the Company's credit life insurance subsidiary, consist of the following:

December 31	1988		1987	
	Carrying Amount	Market Value	Carrying Amount	Market Value
Debt Securities				
Municipal	**$212.8**	**$202.1**	$174.7	$163.3
Corporate	**76.8**	**74.2**	35.1	31.0
Commercial Paper	**16.5**	**16.5**	74.5	74.2
Other	**35.1**	**34.4**	26.9	26.6
Equity Securities				
Preferred	**16.0**	**16.0**	18.3	18.3
Common	**1.4**	**1.4**	2.3	2.3
Other	**3.8**	**3.8**	8.4	8.4
Total	**$362.4**	**$348.4**	$340.2	$324.1

At December 31, 1988, the portfolio of equity securities, having a cost of $20.6, reflects unrealized gains of $.1 and unrealized losses of $3.3. The cost of investments sold is determined on the specific cost identification basis.

[illegible]

December 31	1988	1987
Accrued Investment Income	**$ 24.7**	$ 23.0
Deferred Income Tax Benefits	**143.8**	115.9
Excess Cost of Net Assets Acquired	**24.0**	24.7
Insurance Premiums Receivable	**17.4**	27.5
Miscellaneous Accounts and Notes Receivable	**78.4**	52.2
Mortgage Loans Held for Resale	**17.2**	13.0
Prepaid Expenses	**14.1**	18.7
Property Acquired by Foreclosure	**12.4**	10.8
Unamortized Insurance Policy Acquisition Costs	**43.0**	45.9
Unamortized Long-Term Debt Expense	**12.0**	11.1
Unamortized Software Costs	**18.1**	23.1
Other	**31.7**	8.7
Total	**$436.8**	$374.6

9. Short-Term Debt

Short-term debt outstanding, of which 85.8% and 85.4% of the total at December 31, 1988 and 1987, respectively, is payable in U.S. currency, consists of the following:

December 31	1988	1987
Bank Borrowings	**$ 254.6**	$ 285.2
Commercial Paper	**1,705.2**	1,773.0
Total	**$1,959.8**	$2,058.2

At December 31, 1988, the Company maintained committed revolving credit facilities totaling 116% of its outstanding domestic commercial paper. The unused portion of bank lines of credit at December 31, 1988 and 1987 is $1,934.3 and $1,940.9, respectively. Generally, domestic lines of credit provide for a fee of ¼% per annum on the lines.

Average interest rates (including the costs of maintaining lines of credit) on borrowings outstanding at year end are as follows:

	1988	1987	1986
Bank Borrowings	**12.16%**	8.23%	8.66%
Commercial Paper	**9.78**	8.39	6.89

The weighted-average annual interest rates (including the costs of maintaining lines of credit) and additional data for short-term debt are as follows:

	1988	1987	1986
Maximum Amount at Any Month End	**$2,376.0**	$2,288.8	$2,114.3
Daily Average Amount	**2,036.1**	1,989.9	1,622.7
Average Interest Rates on Borrowings During the Year			
U.S. Dollar	**7.98%**	7.27%	7.05%
Other Currencies	**9.17**	8.20	9.87
Overall	**8.12**	7.38	7.40

10. Long-Term Debt

Long-term debt outstanding, including subordinated debt of $45.0 and $50.0 at December 31, 1988 and 1987, respectively, is as follows:

December 31	1988	1987
Currency		
United States	**$3,433.4**	$2,964.5
Canadian	**196.7**	131.7
West German	**116.4**	93.2
Unamortized Discount	**(21.2)**	(36.6)
Total	**$3,725.3**	$3,152.8

Long-term debt, including average interest rates on debt outstanding at December 31, 1988, is shown below in the earliest year it could become payable:

Maturity	Average Interest Rate	1988	1987
1988		**$ –**	$ 415.7
1989	9.93%	**522.8**	442.0
1990	10.23	**552.3**	460.8
1991	10.13	**501.8**	299.8
1992	10.32	**360.8**	263.7
1993	9.15	**477.2**	179.5
1994–1998	9.99	**878.3**	674.6
1999–2003	7.87	**279.2**	279.2
2004–2008	8.44	**90.6**	90.6
2009–2013	12.83	**83.5**	83.5
Unamortized Discount		**(21.2)**	(36.6)
Total		**$3,725.3**	$3,152.8
Weighted-Average Annual Interest Rate on Debt Outstanding at End of Year		**9.80%**	10.06%

The weighted-average interest rates on the Company's debt during the twelve months ended December 31 were as follows:

	1988	1987
U.S. Dollar Borrowings	**9.91%**	10.04%
Other Currency Borrowings	**9.21**	9.15
Overall	**9.85**	9.99

11. Accounts Payable and Accrued Liabilities

December 31	1988	1987
Accounts Payable	**$ 86.3**	$ 97.6
Accrued and Deferred Compensation	**36.4**	39.3
Accrued Interest	**106.7**	100.5
Accrued Pension Cost	**26.5**	28.5
Dealer Reserves	**11.8**	12.7
Debt Guarantee Obligation	**–**	83.2
Income Taxes Payable	**35.3**	26.9
Insurance Premiums Payable	**22.8**	7.9
Other	**71.6**	56.5
Total	**$397.4**	$453.1

The Company was obligated under a debt guarantee to pay off debt relating to a project associated with a discontinued operation. This obligation was paid off in January 1988.

12. Capital Stock

The number of shares of capital stock is as follows:

Issued and Outstanding	December 31 1988	1987
Preferred—no par value (issuable in series). Authorized, 500,000 9.25% Series Redeemable Preferred—$1,000 stated value.	**58,336**	75,002
Series A Participating Preferred (Preferred Stock Purchase Rights)—$1 par value. Authorized, 28,000,000	–	–
Preferred—$1 par value. Authorized, 2,500,000	–	–
5% Cumulative Preferred—$50 par value. Authorized, 585,730	**407,718(a**	407,718(a
$5.50 Dividend Cumulative Convertible Preferred—no par value—$20 stated value (each share convertible into 4.5 shares of Common; maximum liquidation value, $3,781,500 and $4,173,400). Authorized, 1,164,077	**37,815**	41,734
$4.50 Dividend Cumulative Preferred—$100 par value. Authorized, 103,976	**103,976**	103,976
$4.30 Dividend Cumulative Preferred—no par value—$100 stated value. Authorized, 1,069,204	**836,585**	836,585
Common—$1 par value. Authorized, 60,000,000	**22,390,785(b**	22,393,151(b
After deducting treasury shares		
a) 5% Cumulative Preferred	**178,012**	178,012
b) Common	**4,822,066**	4,802,066

At December 31, 1988, a total of 208,332 shares of Common Stock was reserved for conversion of $5.50 Preferred and 10.5% Convertible Instalment Notes. During the year, 17,634 shares of Common Stock were issued upon conversion of the $5.50 Preferred Stock.

In October 1987 the Board of Directors authorized the repurchase of up to 1,000,000 shares of Common Stock of the Company. Under such authorization, 594,100 shares in 1987 and 20,000 shares in 1988 were repurchased and added to treasury shares.

Additional capital was reduced by $0.3 during 1988. The net change is comprised of a reduction of $0.7 relating to the repurchase of Common Stock and an increase of $0.4 relating to the issuance of treasury shares for corporate purposes.

13. Redeemable Preferred Stock

Dividends on the 9.25% Series Redeemable Preferred Stock, which are cumulative, are payable quarterly at $23.125 per share. Annually through November 15, 1999, the Company is required to redeem 8,333 shares of the stock through a sinking fund at $1,000 per share. Sinking fund payments are cumulative. The Company may, at its option, increase the sinking fund payment by 8,333 shares annually up to an aggregate of 43,750 shares. Under this option, the Company has redeemed 33,332 of the 43,750 shares through December 31, 1988. The Company has the right to redeem the stock beginning November 15, 1989 at an initial redemption price of $1,043.82 per share, declining ratably thereafter to $1,000 per share. Unless dividend and sinking fund payments on this stock are current, the Company may not pay dividends or make other distributions or purchase, redeem, or retire any issues of stock junior to this issue. Upon the arrearage of six quarterly dividends on any series of the Preferred Stock, the holders of the 9.25% Series Preferred Stock with the holders of other series of the Preferred Stock voting as a class would be entitled to elect two members of the Board of Directors.

14. Preferred Stock Purchase Rights

In November 1987, the Company declared a dividend distribution of one Preferred Stock Purchase Right for each outstanding share of Common Stock of the Company payable as of November 23, 1987 to stockholders of record on that date. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of the Company's Series A Participating Preferred Stock at a price of $175, subject to adjustment under certain circumstances.

Rights are issued with all shares of the Company's Common Stock issued between November 23, 1987 and the earliest of the date the Rights become exercisable, expire or are redeemed. Until the Rights become exercisable, they will automatically trade with the Common Stock. If the rights become exercisable, separate certificates will be distributed and the Rights will begin to trade independently from the Company's Common Stock, but will at no time have voting power.

The Rights only will be exercisable ten days after public announcement that a person has acquired 20 percent or more of the Company's outstanding Common Stock or has made a tender offer for 30 percent or more of the Company's outstanding Common Stock.

If, at any time after the Rights become exercisable, but before they expire or are redeemed, the Company is acquired in a merger or other business combination or sells 50% or more of its assets or earning power, the holder of a Right will be entitled to buy, at the exercise price, a number of shares of Common Stock of the acquiring or surviving company having a market value of twice the exercise price of each Right.

In addition, if a 20% or greater shareholder acquires the Company by means of a reverse merger in which the Company and its stock survive or engages in certain self-dealing transactions with the Company, or if a person acquires shares of the Company's stock having 35% or more of the general voting power, each Right not owned by the 20% or greater holder would become exercisable for a number of shares of Participating Preferred Stock of the Company having a market value of two times the exercise price of the Right. The Rights held by the 20% or greater holder would be denied the benefit of this adjustment.

The Rights may be redeemed by the Company for $.05 per Right at any time prior to the expiration of the Rights on November 23, 1997.

15. Accumulated Foreign Currency Translation Adjustments

Assets and liabilities in foreign currencies are translated at the market rate at each balance sheet date. Foreign operating results are translated at the average market rate for each period covered by the statement of income.

An analysis of changes in accumulated foreign currency translation adjustments follows:

	1988	1987
Balance at January 1	**$(10.3)**	$(12.7)
Adjustments for the Year	**(3.3)**	(12.9)
Income Taxes	**4.0**	15.3
Balance at December 31	**$ (9.6)**	$(10.3)

16. Other Expenses

December 31	**1988**	1987	1986
Occupancy	**$ 59.7**	$ 57.4	$ 52.8
Marketing	**21.2**	16.8	25.1
Commissions	**39.8**	29.1	31.6
Depreciation	**23.8**	21.6	18.6
Postage	**9.5**	8.4	8.0
Printing	**11.2**	11.4	11.3
Provision for Restructuring Costs	**–**	–	10.2
Provision Related to Data Processing Upgrade	**12.0**	–	–
Telephone	**17.6**	17.1	16.7
Travel	**11.3**	10.5	11.8
Other	**87.7**	100.8	91.0
Total	**$293.8**	$273.1	$277.1

17. Employee Retirement Plans

The Company has a non-contributory defined benefit pension plan covering substantially all of its employees in the United States. The benefits provided are based on the employee's years of service and average compensation during the highest three consecutive years of earnings. The Company has made annual contributions at least equal to the amounts accrued for retirement expense. Pension expense for the Company's subsidiaries outside the United States is immaterial. Plan assets are invested primarily in corporate bonds and short-term investments.

Effective January 1, 1987, the Company adopted Statements of Financial Accounting Standards (SFAS) No. 87, "Employer's Accounting for Pensions," and No. 88, "Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits." Pension costs for 1988 and 1987 are determined under these standards. Pension cost for 1986 was determined under the provisions of previous accounting principles. Net pension expense for domestic operations was $4.5, $4.3, and $4.2 for 1988, 1987 and 1986, respectively.

Further, the Company funds a 401(k) savings plan under which basic contributions are made annually up to 2.5% of each eligible employee's annual compensation. Costs charged to income for the years ended December 31, 1988, 1987 and 1986 were $2.2, $1.9 and $2.5, respectively.

During 1983 the Company terminated its domestic retirement plan and replaced it with a restructured program providing the participants with equal or increased future retirement benefits. All participants in the terminated plan were 100% vested, and annuity contracts were purchased to provide benefits. Excess assets were returned to the Company, and amortized portions were used to reduce pension expense through 1986. The remaining unamortized gain at January 1, 1987 was included with the Company's adoption of SFAS No. 87 and No. 88.

SFAS 87 requires disclosures of the components of net periodic pension cost and of the projected benefit obligation. The projected benefit obligation is the actuarial present value of the portion of projected future benefits attributable to employee service to date, and the plan cost is that portion attributable to employee service during the year. This cost method recognizes the effect of future compensation levels in projecting the future benefits. The following table details the components of net pension expense:

December 31	1988	1987
Service Cost—Benefits Earned During Period	$ 2.3	$ 2.0
Interest Cost on Projected Benefit Obligation	3.7	3.4
Actual Return on Plan Assets	(1.5)	(1.1)
Net Periodic Pension Cost	$ 4.5	$ 4.3

The plan's funded status and amounts recognized in the Company's balance sheet are as follows:

December 31	1988	1987
Accumulated Benefit Obligation	$ 21.1	$ 20.4
Projected Benefit Obligation for Service Rendered to Date	$ 51.0	$ 46.0
Less Plan Assets at Fair Value	19.1	14.8
Projected Benefit Obligation in Excess of Plan Assets	31.9	31.2
Less Unrecognized Net Gain from Past Experience Different from that Assumed	5.4	2.7
Accrued Pension Cost Included in Other Liabilities	$ 26.5	$ 28.5

In both years the weighted-average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 8.5% and 5.5%, respectively. The estimated long-term rate of return on assets was 9%.

18. Income Taxes

The Company files a consolidated U.S. federal income tax return with all eligible subsidiaries, including eligible discontinued operations. Income taxes, whether payable currently or in the future, are provided on reported earnings.

The provision for income taxes for continuing operations is comprised of the following:

December 31	1988	1987	1986
Current			
U.S.	**$ 58.9**	$ 62.1	$24.4
Foreign	**17.9**	17.7	14.2
Total	**76.8**	79.8	38.6
Deferred			
U.S.	**(20.7)**	(16.8)	12.1
Foreign	**(1.2)**	(5.1)	(1.9)
Total	**(21.9)**	(21.9)	10.2
State and Local	**8.0**	9.5	5.6
Total Provision for Income Taxes	**$ 62.9**	$ 67.4	$54.4

Deferred income taxes result from timing differences in the recognition of income and expense for tax and financial statement purposes. The tax effects of the principal timing differences are as follows:

December 31	1988	1987	1986
Differences Between Cash and Accrual Basis	**$ (1.4)**	$ (5.4)	$ 5.6
Insurance Benefits Provided	**1.5**	(2.4)	.6
Tax Depreciation in Excess of Book Depreciation	**2.5**	3.5	3.2
Reserve for Credit Losses	**(18.7)**	(19.9)	(1.1)
Deferred Retirement Plan Credits	**.7**	.9	2.3
Restructuring Costs	**–**	2.0	(4.3)
Insurance Policy Acquisition Costs	**(2.0)**	4.2	(.1)
Data Processing Upgrade	**(4.1)**	–	–
Other	**(.4)**	(4.8)	4.0
Total Provision (Benefit) for Deferred Income Taxes	**$(21.9)**	$(21.9)	$10.2

A reconciliation of the provision for income taxes at the statutory U.S. income tax rate to the tax provision as reported follows:

December 31	1988	1987	1986
Statutory U.S. Tax Rate	**34.0%**	40.0%	46.0%
Increase (Decrease):			
Differential due to Operations outside U.S.	**2.5**	.9	1.0
Non-Taxable Investment Income	**(2.2)**	(1.6)	(4.1)
Investment Tax Credit	**–**	–	(.6)
State and Local Income Taxes	**2.9**	2.6	2.2
Tax Sharing Agreement with Divested Insurance Subsidiary	**–**	(9.5)	–
Other	**.3**	.3	(2.3)
Effective Tax Rate	**37.5%**	32.7%	42.2%

The Company entered into an agreement with American Centennial Insurance Company (ACIC) whereby the Company compensated ACIC for tax losses generated by ACIC in 1987 which could be utilized on the Company's consolidated tax return. ACIC was a discontinued subsidiary at the time the losses were incurred. The tax savings generated by such losses exceeded the amounts paid to ACIC.

U.S. income taxes have not been provided at December 31, 1988 on $30.1 of undistributed earnings of foreign subsidiaries, which are expected to be permanently invested in foreign countries, and on $77.8 of undistributed earnings of life insurance subsidiaries accumulated as policyholder's surplus under tax laws in effect prior to 1984.

19. Geographic Information

Operations of the Company are conducted through subsidiaries located primarily in the United States. Operations outside the U.S. are conducted through subsidiaries in Canada, the United Kingdom and West Germany.

Data by geographic area for the years ended December 31 is shown in the following tabulation:

	United States	Other	Inter-Company Eliminations	Total
1988				
Revenue	**$1,245.6**	**$180.0**	**$ (7.6)**	**$1,418.0**
Income before Income Taxes	**140.3**	**27.6**	–	**167.9**
Assets	**6,623.7**	**955.7**	**(35.4)**	**7,544.0**
1987				
Revenue	1,150.9	151.7	(9.6)	1,293.0
Income before Income Taxes	190.5	15.7	–	206.2
Assets	6,248.8	877.4	(84.5)	7,041.7
1986				
Revenue	1,061.4	120.0	(9.0)	1,172.4
Income before Income Taxes	116.0	13.0	–	129.0

Net liabilities denominated in foreign currencies were $131.5 and $114.8 at December 31, 1988 and 1987, respectively. The Company's exposures in foreign currencies are hedged to the extent practical.

20. Leases

The Company's consumer finance system operates from premises under leases generally having an original term of five years with a renewal option for a like term. The Company leases its headquarters in Wilmington, Delaware, under a lease expiring in 1993. Also, a subsidiary leases an office complex with a primary term expiring in 2010 and renewal options totaling forty-seven years. Data processing equipment lease terms range from one to four years and are generally renewable. The minimum rental commitments under noncancelable operating leases at December 31, 1988 are as follows:

1989	$ 42.3
1990	38.9
1991	35.4
1992	32.3
1993	29.1
1994–1998	131.3
1999–2013	318.2
Total	$627.5

21. Contingent Liabilities

The Company and certain of its present and former officers and directors, together with certain officers of subsidiaries of the Company, are defendants in three lawsuits seeking unspecified money damages relating to the restructuring of the Company and the operations of an insurance subsidiary prior to its disposition. The Company is of the opinion that such lawsuits are without merit.

22. Selected Financial Data

Selected unaudited financial data required by the Securities and Exchange Commission are included in the Five-Year Summary—Supplemental Information, page 46 and in the Data by Calendar Quarter—Supplemental Information, page 47.

Management's Report

Management is responsible for the preparation of the financial statements and related notes contained in this Annual Report and believes that such financial data presents fairly the Company's results of operations and financial position. These statements necessarily include amounts based on the best estimates and judgements of management, all in conformity with generally accepted accounting principles.

The Company maintains a system of internal control which provides reasonable assurance that assets are safeguarded and transactions are executed and recorded in accordance with management's authorization. An integral part of the Company's internal control system is an active internal audit staff.

The Company's independent auditors, Deloitte Haskins & Sells, perform annual audits in accordance with generally accepted auditing standards. Their examinations include a review of the internal control system to establish a basis for reliance thereon in determining the nature, extent and timing of audit tests applied in the examination of financial statements.

The Audit Committee of the Board of Directors is comprised entirely of outside directors. It meets regularly with management and the internal and independent auditors to review the activities of each and satisfy itself that responsibilities are properly discharged. Unrestricted access to the Audit Committee is provided to Deloitte Haskins & Sells and the internal audit staff, allowing open discussion without management's presence on the quality of financial reporting and the adequacy of internal accounting controls.

Management recognizes its responsibility to provide reliable financial information and believes its system of internal controls enables it to meet that responsibility.

Finn M. W. Caspersen
Chairman of the Board of Directors and Chief Executive Officer

Andrew C. Halvorsen
Member of the Office of the President and Chief Financial Officer

Thomas P. McGough
Senior Vice President and Controller

Accountants' Opinion

Deloitte
Haskins+Sells

To the Stockholders and Board of Directors of Beneficial Corporation:

We have audited the accompanying balance sheets of Beneficial Corporation and Consolidated Subsidiaries as of December 31, 1988 and 1987 and the related statements of income and retained earnings and cash flows for each of the three years in the period ended December 31, 1988. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Beneficial Corporation and Consolidated Subsidiaries at December 31, 1988 and 1987 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1988 in conformity with generally accepted accounting principles.

As discussed in Note 5 to the financial statements, in 1988 the Company changed its method of accounting for nonrefundable fees and costs associated with originating loans. Also, as discussed in Note 5 to the financial statements, in 1986 the Company changed its method of accounting for interest income on finance receivables.

Deloitte Haskins Sells

Morristown, New Jersey
February 9, 1989

Five-Year Summary

Supplemental Information (in millions, except where noted)	1988	1987	1986	1985	1984
During The Year					
Net Income (Loss):					
Income from Continuing Operations (a)	$ 105.0	138.8	74.6	69.0	90.2
Income (Loss) from Discontinued Operations	$ –	2.0	(268.2)	28.7	14.8
Extraordinary Items	$ –	32.4	–	–	–
Cumulative Effect of Accounting Change	$ –	–	19.4	–	–
Net Income (Loss)	$ 105.0	173.2	(174.2)	97.7	105.0
Earnings (Loss) per Common Share (dollars):					
Continuing Operations (a)	$ 4.19	5.52	2.66	2.37	3.30
Discontinued Operations	$ –	.09	(11.93)	1.30	.66
Extraordinary Items	$ –	1.42	–	–	–
Cumulative Effect of Accounting Change	$ –	–	.86	–	–
Earnings (Loss) Per Common Share	$ 4.19	7.03	(8.41)	3.67	3.96
Average Number of Common Shares	22.2	22.7	22.5	22.1	22.2
Dividends Paid per Common Share (dollars)	$ 2.00	2.00	2.00	2.00	2.00
Revenue	$1,418.0	1,293.0	1,172.4	1,127.3	1,102.7
Interest	$ 544.7	484.5	455.2	440.2	437.2
Lending Spread	$ 592.6	554.3	525.5	469.6	460.1
Lending Spread as a % of Cash Invested	9.43	9.71	10.17	10.24	10.58
Provision for Credit Losses (less recoveries)	$ 72.0	69.5	64.8	53.5	45.9
Total Expenses	$1,250.1	1,086.8	1,043.4	1,009.8	967.3
Income before Income Taxes	$ 167.9	206.2	129.0	117.5	135.4
% of Monthly Cash Principal Collections to Average Monthly Balances	3.70	3.68	4.22	3.86	3.48
% of Finance Receivables Charged Off (less recoveries) to Average Monthly Balances	1.05	1.08	1.07	.77	.84
At Year End					
Finance Receivables (net of unearned finance charges)	$6,598.1	6,134.8	5,461.1	4,894.1	4,413.5
Allowance for Credit Losses	$ 212.8	210.6	195.6	190.3	173.7
Total Assets	$7,544.0	7,041.7	7,427.6	7,124.8	6,634.5
Short-Term Debt	$1,959.8	2,058.2	2,103.0	1,245.3	834.1
Long-Term Debt	$3,725.3	3,152.8	3,742.4	3,971.9	3,999.6
Redeemable Preferred Stock	$ 58.3	75.0	91.7	108.3	125.0
Shareholders' Equity (including redeemable preferred stock)	$ 908.3	876.1	800.3	1,036.8	991.0
% of Allowance for Credit Losses to Finance Receivables	3.23	3.43	3.58	3.89	3.94
% of Finance Receivables with Payments more than Two Months Delinquent—Consumer Loans only (based upon recency of payment)	.59	.61	.74	.70	.75
Number of Accounts	1.9	1.7	1.7	1.6	1.5
Average Balance — Consumer Loans only (dollars)	$ 5,652	5,494	4,962	4,433	4,069
Number of Holders of Common Shares	17,900	18,500	19,200	23,700	25,700
Number of Employees	6,800	6,600	6,800	6,700	6,300
Number of Offices	1,073	1,074	1,106	1,114	1,151

(a) Includes the following Special Items, after income taxes: "Provision for Data Processing Upgrade" of $7.9 ($.35 per share) in 1988; "Interest Income from Tax Settlement" of $32.6 ($1.44 per share) in 1987; "Provision for Restructuring" of $5.5 ($.24 per share) in 1986; and "The 'Fresh Start' Provisions of the Deficit Reduction Act" of $8.5 ($.38 per share) in 1984.

Data By Calendar Quarter (unaudited)

Supplemental Information			1988		
(in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue	$325.8	$ 331.4	$331.6	$ 429.2	$1,418.0
Income before Income Taxes	$ 42.7	$ 43.4	$ 47.0	$ 34.8	$ 167.9
Net Income	$ 27.0	$ 27.4	$ 29.2	$ 21.4	$ 105.0
Earnings (Loss) per Common Share	$ 1.08	$ 1.10	$ 1.17	$ .84	$ 4.19
Common Stock					
High Sales Price	$47.25	$48.375	$53.75	$51.125	
Low Sales Price	34.25	41.625	43.25	43.125	
Dividends Paid per Share	.50	.50	.50	.50	$ 2.00

			1987		
(in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenue	$282.6	$ 346.1	$319.4	$ 344.9	$1,293.0
Income before Income Taxes	$ 41.9	$ 71.0	$ 45.3	$ 48.0	$ 206.2
Net Income (Loss)					
Income from Continuing Operations	$ 25.1	$ 47.8	$ 29.4	$ 36.5	$ 138.8
Income (Loss) from Discontinued Operations	1.1	.9	–	–	2.0
Extraordinary Items:					
Use of Tax Loss Carryforwards	12.1	23.6	5.7	–	41.4
Early Retirement of Debt	–	–	(7.3)	(1.7)	(9.0)
Total	$ 38.3	$ 72.3	$ 27.8	$ 34.8	$ 173.2
Earnings (Loss) per Common Share					
Continuing Operations	$ .95	$ 1.95	$ 1.14	$ 1.48	$ 5.52
Discontinued Operations	.04	.05	–	–	.09
Extraordinary Items:					
Use of Tax Loss Carryforwards	.53	1.04	.24	–	1.81
Early Retirement of Debt	–	–	(.32)	(.07)	(.39)
Total	$ 1.52	$ 3.04	$ 1.06	$ 1.41	$ 7.03
Common Stock					
High Sales Price	$64.50	$ 61.25	$62.50	$ 57.75	
Low Sales Price	55.50	45.75	53.25	31.50	
Dividends Paid per Share	.50	.50	.50	.50	$ 2.00

Officers

Beneficial Corporation

Finn M. W. Caspersen
Chairman of the Board of Directors and Chief Executive Officer

David J. Farris
Member of the Office of the President and Chief Operating Officer

Andrew C. Halvorsen
Member of the Office of the President and Chief Financial Officer

James H. Gilliam, Jr.
Senior Vice President, General Counsel and Secretary

William H. H. Ely, Jr.
Senior Vice President and Treasurer

Thomas P. McGough
Senior Vice President and Controller

Maryann W. Schneider
Senior Vice President - Planning and Administration

Beneficial Management Corporation

David J. Farris
President and Chief Executive Officer

Senior Vice Presidents

Robert M. Grohol
Operating

Charles E. Hance
General Counsel

J. Edward Kerwan
Data Processing

W. James Murphy
Operating

Manfred E. Niebisch
Operating

David B. Ward
Government Relations

Group Presidents

Pierre E. Bashe
Northwest Group

John France
United Kingdom Group

James L. Frans
Midwest Group

Peter J. Gimino, Jr.
Southwest Group

J. C. Heywood
North Central Group

Wayne B. Hinson
Southern Group

Kendall D. Kelley
Mid-Atlantic Group

Forrest B. Kinney
Gulf Coast Group

Francis X. Mohan
Northeast Group

Rodney K. Adams
Canadian Group

Beneficial National Bank

James W. Wright
President and Chief Executive Officer

Beneficial Mortgage Corporation

Jeffrey D. Robinson
President and Chief Executive Officer

Benevest Group Inc.

Ronald S. Belcher
President

The Central National Life Insurance Company

Daniel R. O'Brien
President and Chief Executive Officer

Beneficial Savings Bank, FSB

Kenneth A. Reyes
President and Chief Executive Officer

Directors

Charles W. Bower (3,4)
Retired; former Senior Vice President and Treasurer of Beneficial Corporation

Robert C. Cannada (3,5)
Attorney at Law, Butler, Snow, O'Mara, Stevens & Cannada, Jackson, Mississippi

Finn M. W. Caspersen (1,2)
Chairman of the Board of Directors and Chief Executive Officer

David J. Farris (1,2)
Member of the Office of the President and Chief Operating Officer

James H. Gilliam, Jr. (1)
Senior Vice President, General Counsel and Secretary

Andrew C. Halvorsen (1,2)
Member of the Office of the President and Chief Financial Officer

J. Robert Hillier (4,6)
Architect and businessman, The Hillier Group, Inc., Princeton, NJ

Gerald L. Holm (4,5)
Consultant to the Company; former Vice Chairman of Beneficial Corporation

Steven Muller (5,6)
President, Johns Hopkins University, Baltimore, Maryland

Susan Julia Ross (3,6)
Attorney at Law, Natelson and Ross, Taos, New Mexico

Robert A. Tucker (3)
Retired; former Member of the Office of the President and Chief Financial Officer of Beneficial Corporation

E. Norman Veasey (3,5)
Attorney at Law, Richards, Layton & Finger, Wilmington, Delaware

Susan M. Wachter (3,6)
Associate Professor of Finance, The Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania

Charles H. Watts, II (3,5)
Educational and business consultant, McLean, Virginia

K. Martin Worthy (4,5)
Attorney at Law, Hopkins, Sutter, Hamel & Park, Washington, D.C.

Directors Emeriti

Cecil M. Benadom

Elbert N. Carvel

Freda R. Caspersen

George R. Evans

J. Thomas Gurney

Modie J. Spiegel

Arthur T. Ward

(1) Member of Executive Committee (Finn M. W. Caspersen, Chairman)
(2) Member of Finance Committee (Andrew C. Halvorsen, Chairman)
(3) Member of Audit Committee (Charles H. Watts, II, Chairman)
(4) Member of Compensation Committee (K. Martin Worthy, Chairman)
(5) Member of Corporate Policy Committee (E. Norman Veasey, Chairman)
(6) Member of Nominating Committee (J. Robert Hillier, Chairman)

Corporate Information

Beneficial Corporation is a direct issuer of commercial paper to institutional and other corporate investors. Notes are sold in amounts of $100,000 or more, for maturities of 5 to 270 days at competitive market rates. Daily rates are posted nationally on the TELERATE SYSTEM next to the symbol "BNL." For further information call (201) 781-3614.

Media representatives and others seeking general information about the Company should contact Ms. Deborah Veasey at (201) 781-3882.

Security analysts, portfolio managers, and other investors seeking financial information about the Company should contact Mr. William H. H. Ely at (201) 781-3609 or Mr. John R. Engelhardt at (201) 781-3613.

Morgan Shareholder Services Trust Company, New York is both registrar and transfer agent for all classes of Beneficial Corporation common and preferred stock. Address changes, security transfer matters, and the Dividend Reinvestment Service can be handled by phone. The number of Morgan's telephone response center is (212) 587-6515. Their mailing address is 30 West Broadway, New York, NY 10007.

Copies of the Company's 10-K report to the SEC are available upon request from Mr. James H. Gilliam, Jr., Beneficial Corporation, P.O. Box 911, Wilmington, Delaware 19899.

The Annual Meeting of the shareholders of Beneficial Corporation will be held on Tuesday, May 23, 1989 at 11:00 a.m. in the Company's headquarters, 400 Bellevue Parkway, Wilmington, Delaware.

Beneficial®

Annual Report 1988